Essex County Council

Audit, Governance and Standards Committee

10:30	Monday, 30 November 2020	Online Meeting

The meeting will be open to the public via telephone or online. Details about this are on the next page. Please do not attend County Hall as no one connected with this meeting will be present.

For information about the meeting please ask for:
Andy Gribben, Senior Democratic Services Officer
Telephone: 033301 34565
Email: democratic.services@essex.gov.uk

Essex County Council and Committees Information

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via online video conferencing.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

How to take part in/watch the meeting:

Participants: (Officers and Members) will have received a personal email with their login details for the meeting. Contact the Democratic Services Officer if you have not received your login.

Members of the public:

Online:
You will need to visit the ECC Democracy YouTube Channel https://tinyurl.com/yynr2tpd where you will be able watch live or view the meeting at a later date.

Accessing Documents

If you have a need for documents in, large print, Braille, on disk or in alternative languages and easy read please contact the Democratic Services Officer before the meeting takes place. For further information about how you can access this meeting, contact the Democratic Services Officer.

The agenda is also available on the Essex County Council website, www.essex.gov.uk From the Home Page, click on 'Running the council', then on 'How decisions are made', then 'council meetings calendar'. Finally, select the relevant committee from the calendar of meetings.

Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

		Pages
1	**Membership, Apologies, Substitutions and Declarations of Interest**	**4 - 4**
2	**Minutes and Matters Arising** To approve as a correct record the minutes of the meeting held on 16 November 2020 and identify matters arising.	**5 - 10**
3	**2019/20 Audit Completion Report for Essex County Council** To receive a report (AGS/88/20 and appendix) from Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	**11 - 73**
4	**2019/20 Audit Completion Report for the Essex Pension Fund** To receive a report (AGS/89/20 and appendix) from Nicole Wood, Executive Director, Finance and Technology and Samantha Andrews, Investment Manager (Essex Pension Fund).	**74 - 122**

5	**2019/2020 Statement of Accounts**	**123 - 361**
	To receive a report (AGS/90/20 and appendix) from Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	
6	**Work Programme**	**362 - 365**
	To receive a report (AGS/91/20) from Paul Turner, Director, Legal and Assurance.	
7	**Date of the Next Meeting**	
	To note that the next scheduled meeting will be held on Monday 22 March 2021 at 10:30am virtually via ZOOM (to be advised) and will be preceded by a private meeting for AGS members only.	
8	**Dates of Future Meetings**	
	To note the meeting dates for the 2021-22 municipal year as set out below: • 7 June 2021 • 26 July 2021 • 27 September 2021 • 15 November 2021 • 17 January 2022	

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.

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 G Butland	
Councillor P Channer	
Councillor A Davies	
Councillor A Hedley	Chairman
Councillor A Jackson	
Councillor R Mitchell	
Councillor R Moore	
Councillor M Platt	Vice-Chairman
Councillor K Smith	
Councillor A Turrell	
Mr Atta Ul Haque	Independent member (non-voting)

Minutes of the meeting of the Audit, Governance and Standards Committee, that was held remotely on Monday, 16 November 2020

A YouTube recording of the meeting is to be found online.

Present:

Members:

Councillor G Butland	
Councillor P Channer	
Councillor A Davies	
Councillor A Hedley	Chairman
Councillor A Jackson	
Councillor R Mitchell	
Councillor Dr R Moore	
Councillor M Platt	
Councillor K Smith	
Councillor A Turrell	
Mr Atta Ul Haque	Independent member appointed to the committee

Also Present:

David Eagles	BDO LLP (external auditor)
Barry Pryke	BDO LLP (external auditor)

ECC Officers:

Paula Clowes	Head of Assurance
Christine Golding	Chief Accountant
Andy Gribben	Senior Democratic Services Officer (clerk to the meeting)
Stephanie Mitchener	Director, Finance
Paul Turner	Director, Legal and Assurance (Monitoring Officer)

1. Welcome and Introduction

Councillor Hedley welcomed those attending the meeting of the Audit, Governance and Standards Committee.

2. Remote working

Councillor Hedley reminded everyone that although members are attending the meeting remotely, they should remain engaged in the meeting, refrain from responding to emails and texts during the meeting and put all devices on silent mode.

Members were reminded to keep their microphone on mute for the duration of the meeting unless they wished to speak and to address all remarks through the Chairman.

Councillor Hedley also reminded members that the meeting was to be broadcast live over the internet and will then be publicly available on the County Council's website and on YouTube after the meeting. More details were set out in the agenda. He also asked those persons watching via YouTube that if they chose to utilise the subtitle function the Council could not accept responsibility for their accuracy.

3. 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.

2. No apologies had been received.

3. Declarations of Interests:

   In response to a question, the Director, Legal and Assurance (Monitoring Officer) advised members that they need not declare interests as Deputies to Cabinet Members.

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

4. Minutes and Matters Arising

The minutes of the meeting held on Monday 28 September 2020 were approved as a correct record and signed by the Chairman.

Minute 11: Arising from the convening of a Task and Finish Group to examine Council-wide online forms three Members, Councillor Butland, Mackrory and Mitchell had volunteered and they would be scoping the work and drawing up the Terms of Reference.

5. Variation in the Order of Business

With the agreement of the members of the committee the Chairman varied the order of business such that the Appointment of an Independent Member of the Audit, Governance and Standards Committee became the next item of business.

6. Appointment of Independent Member

The Director, Legal and Assurance presented report AGS/86/20 that noted that at its meeting on 14 July 2020, Full Council agreed to the appointment of an Independent Member to the Audit Governance and Standards Committee in line with current best practice and as recently recommended by Sir Tony Redmond in his report 'Independent review into the oversight of local audit and the transparency of local authority financial reporting'.

Members of the committee were asked to approve the appointment of an Independent Member to the Committee.

Resolved

1. That the Committee appoints Atta Ul Haque as an Independent Member of the Audit, Governance and Standards Committee from 16 November 2020 for a term of four years.

2. That Mr Ul Haque's appointment be subject to completion of an induction programme.

7. Deferral of Completion of the External Audit of the Council's 2019/20 Statement of Accounts

The Chief Accountant presented report AGS/82/20 which included an update by the Council's External Auditor, BDO LLP, on the reasons for a further delay in completion of the audit of the Council's Statement of Accounts for 2019/20 and to seek approval to schedule a further meeting to receive the Audit Completion Report and to approve the Accounts.

In response to questions from members of the committee, Mr Eagles (BDO LLP):
- explained that the matters that had led to this further delay in completion of the 2019/20 audit, specifically relating to the valuation of assets, had now been resolved. He explained that the Council had refined BDO's initial estimate of the uncertainty regarding asset values, and that the subsequent calculation resulted in a residual difference below BDO's materiality threshold,
- agreed that any reputational risk to the Council arising from the need for Council officers to make subsequent adjustments to the presented accounts was to be avoided and
- was able to assure the committee that, if reconvened on 30 November 2020, it would be able to examine the Audit Completion Reports for the Council and Essex Pension Fund, and to approve the 2019/20 Statement of Accounts.

Resolved:

1. The Committee noted the reasons for the further deferral of completion of the audit for 2019/20, as appended to the report (appendix B) and

2. The Committee agreed to schedule a further meeting on 30 November 2020 in order to meet receive BDO's Audit Completion Reports for the Council and Essex Pension Fund for 2019/20, and to approve the Council's 2019/20 Statement of Accounts for publication.

8. Internal Audit and Counter Fraud Progress report

The committee received report AGS/83/20 from the Head of Assurance.

Members of the committee were advised of Internal Audit and Counter Fraud activity in relation to the 2020/21 Internal Audit Plan (approved by the Audit, Governance and Standards Committee in July 2020). The report advised members of the situation as at 31 October 2020.

Members also noted the appendices including:
Appendix 1 - Executive Summaries for Limited Assurance Reports,
Appendix 2 - Current assessment rationale for grading the priority of recommendations in Internal Audit reports and
Appendix 3 - Critical and Major Recommendations overdue for implementation as at 31 October 2020.

The Council's Head of Assurance asked members to note that:

- No reports with 'No Assurance' had been issued during the period.
- One audit had been completed that received 'Limited Assurance' relating to the Energy Invoice Process. With the agreement of members an officer representing that service would be requested to attend the committee at its next regularly scheduled meeting in March 2021.
- As at 31 October 2020 there were four 'Critical' and fourteen 'Major' recommendations open, of which three 'Major' recommendations and 39 'Moderate' recommendations had moved beyond their latest agreed due date. The three 'Major' recommendations were shown in the appendix to the report.
- Members were asked to note that progress had been made with implementing audit recommendations as last year there were twelve 'Major' and two 'Critical' recommendations that were overdue.
- Members also noted that Counter Fraud Referrals that had been previously reported as significantly lower than the same period last year, due to the Covid-19 pandemic, were now returning to normal levels.

In response to a question it was explained that the use of the Counter-Fraud Data Hub related to inappropriate claiming of the Single Person's Council Tax Discount. The costs of participating in the scheme was £26,822 per year. The Head of Assurance agreed that, in this context, it would be more appropriate to refer to the monies identified not as 'saved' but as 'recovered'.

She also advised members that information provided to the Cabinet Office under the National Fraud Initiative is supplied under strict statutory guidelines that specify what data may be shared and service users are informed.

Resolved

1. That the report be noted.

2. That an appropriate officer be invited to the next meeting (March 2021) to provide an update on the limited assurance audit for Energy Invoice Process

9. Annual Report of the Audit Governance and Standards Committee

The committee received report AGS/84/20 from the Director, Legal and Assurance to review and approve the Annual Report of the Audit, Governance and Standards Committee, attached at appendix 1 to the report, prior to it being presented to Full Council in December 2020.

Resolved

The Annual Report of the Audit Governance and Standards Committee was approved and agreed that it should be presented to Full Council in December 2020.

10. Standards: Best Practice Recommendations

The committee received report AGS/85/20 from the Director, Legal and Assurance that aske members of the committee to consider the draft progress report, as detailed in the appendix, to the Committee on Standards in Public Life.

Resolved

The draft response was agreed.

11. Work Programme

The report (AGS/87/20) was presented by the Director, Legal and Assurance. Members were reminded that the work programme was subject to regular revisions and change.

Members noted that the programme showed only the meeting on 22 March 2021 and officers were requested that the next Work Programme be populated with the subsequent scheduled meetings.

Resolved

The Work Programme was noted.

12. Date of the Next Meeting

Members noted that (arising from Minute 7, above) the next meeting of the committee would be held on Monday 30 November at 10.30am (virtually) and would be preceded by a private meeting for members of the committee only and that the subsequent scheduled meeting would be held on Monday 22 March 2021.

Chairman……………………………….

Agenda item 3

Report title: 2019/20 Audit Completion Report for Essex County Council	**AGS/88/20**
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 30 November 2020	**For**: Noting
Enquiries to Nicole Wood, Executive Director, Finance and Technology **email** nicole.wood@essex.gov.uk **Tel.** 07946 705816 or Christine Golding, Chief Accountant **email** christine.golding@essex.gov.uk **Tel.** 03330 138401	
Divisions affected: All Essex	

1. Purpose of report

1.1 The purpose of this report is to present BDO's 2019/20 Audit Completion Report for the Council, as appended.

2. Recommendations

2.1 None – the report is for information only.

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 2019/20 audit of the Council which, at the time of writing this report, was nearing completion. 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 opinion on the Council’s Statement of Accounts and conclusion 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 2019/20 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 2020

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CONTENTS

WELCOME

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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 2020, 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 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 November 2020

David Eagles

Engagement Partner

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit, Governance and Standards Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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 of the Group and use of resources of the Council for the year ended 31 March 2020.

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 Group's financial statements and the Council's use of resources for the year ended 31 March 2020 on 30 November 2020.

Outstanding matters are listed on page 45 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

Subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements as set out on page 45.

We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

We are unable to issue our audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts submission.

Final materiality

Group final materiality was determined based on 1.75% of gross expenditure.

Group planning materiality of £36.1 million (as reported in our planning report dated 6 March 2020, presented to the Audit, Governance and Standards Committee on 23 March 2020) has been updated to reflect gross expenditure reported in the unaudited 2019/20 financial statements.

Material misstatements

Our audit identified the following material misstatements:

- Bank accounts in an overdraft position at both 31 March 2020 and 31 March 2019 were shown net against cash and cash equivalents on the face of the balance sheet. These bank accounts should have been shown gross as current liabilities.
- Cash outflows associated with revenue expenditure funded from capital under statute (REFCUS) were classified as investing activities in both 2018/19 and 2019/20. These cash flows should have been shown as operating activities.
- Cash inflows and outflows associated with purchases of and proceeds from investments were shown net in Note 28 Cash flows from operating, investing and financing activities for both 2018/19 and 2019/20. These cash flows should have been shown gross.

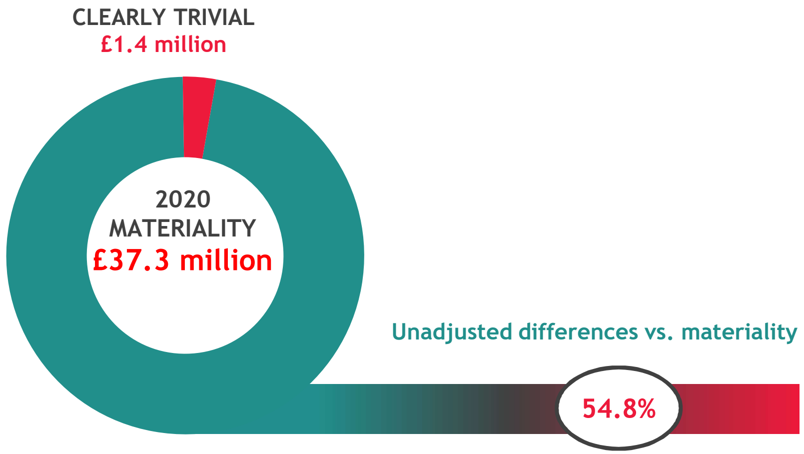
Management has amended the financial statements for these misstatements. There is no impact on the total value of the cash balances held by the Council.

Unadjusted audit differences

We identified two audit adjustments that, if posted, would reduce the deficit on the provision of services for the year by £2.195m

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.



OTHER MATTERS
Executive summary

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Financial reporting

- We have not identified any non-compliance with Group 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.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- 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.

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 Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

CORONAVIRUS

The effects on year-end reporting and auditing

Contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, the Council is required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern the Council is required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the Council considers that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the Council's assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of the Council's assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

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Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS 3

The effects on year-end reporting and auditing

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- Our audit has been conducted remotely. Arrangements for sharing of working papers via a portal application were already in place prior to the UK Government implementing the lockdown requirements and we have continued to use this during the most recent phase of our audit.
- Where it has been necessary to observe documentation being produced, we have worked with the Council to arrange virtual meetings, allowing both sides to share their desktops and view the processes being followed.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 6 March 2020 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 Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Revenue recognition and expenditure cut-off	Significant	Yes	No	No	No	No
Valuation of land, buildings and investment properties	Significant	Yes	Yes	Yes	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Waste Treatment PFI	Significant	Yes	No	No	No	No
Disposal of Essex Education Services (EES)	Normal	No	No	No	No	No
Termination of Tendring Public Private Partnership	Normal	No	Yes	No	No	No
Implementation of IFRS 16 (Leases)	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	Yes

Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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 journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit procedures on journal entries are complete and we have no matters to report.

Our review of estimates and judgements applied by management is complete and we have no matters to report.

Our review of the unadjusted audit differences has not identified any indication of bias or deliberate misstatement.

Discussion and conclusion

Our audit work did not identify any issues.

REVENUE RECOGNITION AND EXPENDITURE CUT-OFF

Auditing standards presume that income recognition presents a fraud risk.

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of revenue grants subject to specific performance conditions.

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to supporting documentation from grant paying bodies and checked whether recognition criteria had been met.
- Checked that expenditure had been recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

Results

Our audit procedures relating to both grant income subject to specific conditions and expenditure occurring round the year end are complete and we have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

Contents

The valuation of land and buildings is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Local authorities are required to ensure that the carrying value of land and buildings 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, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and 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 valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of 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;
- Followed up valuation movements that appear unusual; and
- Confirmed that assets not specifically valued in the year were assessed to ensure their reported values remained materially correct.

Results

The instructions provided to the valuer were consistent with our expectations and we concluded that we were able to rely on the management expert.

Our audit procedures relating to assets valued on an existing use or fair value basis are complete and we have no matters to report.

Our audit procedures relating to the valuation of specialised land and buildings (including schools) are complete. We identified that the indexation applied to specialised assets not subject to full revaluation in 2019/20 was outside of our expectations (which were based on the detailed in-year valuations performed as part of the rolling revaluation programme). The Council have performed further work and have concluded that the maximum value of the misstatement arising from this issue is an £18.250 million understatement of the value of land and buildings. This has been reported as an unadjusted error on page 23.

Discussion and conclusion

Other than the matter referred to above, our audit work did not identify any issues.

Contents

VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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.

The valuation of the pension liability is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme 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 competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data were communicated to the actuary.

Results

The disclosures in the financial statements agree to the information provided by the pension fund actuary. We concluded that we were able to rely on the management expert.

We have reviewed the reasonableness of the assumptions used by the actuary in the calculations and have no matters to report.

We have reviewed the controls in place for providing accurate membership data to the actuary and have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

WASTE TREATMENT PLANT PFI

Contents

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 to be reported	
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 2018/19 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:

- Assessed whether the Council's accounting 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

Based on our updated understanding of the position regarding the contract, including the results of the Court case and the subsequent administrative receivership of the operator, we concluded that the Council's accounting 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 that the disclosures made in respect of contingencies were not inappropriate.

Discussion and conclusion

Our audit work did not identify any issues.

DISPOSAL OF ESSEX EDUCATION SERVICES (EES)

Accounting entries associated with the disposal of EES of the arrangement may not be correctly presented.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

During 2019/20, the Council sold Essex Education Services (EES), an internal trading unit which provides support services to schools, including pupil performance monitoring software, to a third party.

There is a risk that the accounting entries associated with the sale of EES are not recognised at the correct value and/or presented correctly in the Council's financial statements.

Work performed

Our audit procedures included reviewing the accounting entries associated with sale of EES to confirm that they had been correctly recognised and presented in accordance with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Results

The Council have recognised the proceeds from the disposal of EES as a capital receipt. The treatment of the disposal in the Statement of Accounts is consistent with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Discussion and conclusion

Our audit work did not identify any issues.

TERMINATION OF TENDRING PUBLIC PRIVATE PARTNERSHIP

Contents

Accounting entries associated with the termination of the arrangement may not be correctly presented.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Council entered into a public private partnership (PPP) for the provision of 12 primary schools in the Tendring area in October 2001. At its meeting in July 2018, the Cabinet approved termination of this arrangement. Formal termination took place in 2019/20.

There is a risk that the accounting entries associated with the termination of the PPP arrangement are not recognised at the correct value and/or presented correctly in the Council's financial statements.

Work performed

Our audit procedures included reviewing the accounting entries associated with the termination of the arrangement to confirm that they had been correctly recognised and presented in accordance with the requirements of CIPFA's Code of Practice on Local Authority Accounting and application financial reporting standards.

Results

The Council have split the termination payment appropriately between capital and revenue elements. The treatment of the termination payment in the Statement of Accounts is consistent with the requirements of CIPFA's Code of Practice on Local Authority Accounting and applicable financial reporting standards.

Discussion and conclusion

Our audit work did not identify any issues.

IMPLEMENTATION OF IFRS 16 (LEASES)

Contents

There is a risk that disclosures relating to the implementation of IFRS 16 in 2020/21 are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2020/21. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

There is a risk that the disclosures required in the accounting standards not yet adopted note, and the full disclosures in the 2020/21 financial statements will not be complete and accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

Work performed

This risk was raised on the assumption that IFRS 16 would be adopted by the Code from 1 April 2020 and IAS 8 disclosures regarding the impact of the standard would be required in the 2019/20 financial statements,

Following the issue of our audit plan, it was announced that implementation of IFRS 16 in the public sector would be postponed until 1 April 2021, meaning detailed disclosures are no longer required in the 2019/20 financial statements.

Results

Note 4 in the unaudited accounts makes reference IFRS 16 and the change from recognising only finance lease assets on the balance sheet. The note also highlights the deferral. This disclosure meets the requirements of the Code and no further work is required.

Discussion and conclusion

Our audit work did not identify any issues.

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 2019/20 requirements.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Whilst the Council 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 have not been disclosed; and
- Undertaken Companies House searches for potential undisclosed interests.

Results

Our review of the management processes and controls to identify and disclose related party transactions has not identified any weaknesses.

Our audit procedures have not identified any undisclosed related party transactions.

Discussion and conclusion

Our audit work did not identify any issues.

OTHER MATTERS

Contents

The following additional matter arose during the audit which we want to bring to your attention.

Issue	Comment
The Council have reported an overspend of £5.4 million against the 2019/20 dedicated schools grant (DSG) received from central government. In accordance with guidance issued by CIPFA in 'CIPFA Bulletin 05 – Closure of the 2019/20 Financial Statements', published in April 2020, and as disclosed in Note 14 to the financial statements, the Council has presented the 2019/20 DSG deficit as a negative earmarked reserve.	It is our view that recognition of a negative earmarked reserve is not consistent with the requirements of the Code, as there is no precedent for using earmarked reserves to recognise a liability that has already been incurred by the Council (effectively resulting in an unusable earmarked reserve). We consider debiting the 2019/20 DSG deficit directly against the general fund balance (effectively reducing the general fund balance) to be an appropriate alternative. From 1 April 2020, the treatment of deficits arising against the DSG is governed by legislation. This legislation mandates that a DSG deficit will only be funded and recovered through financial support received from the Department for Education and so should not be financed by the Council's general fund. The amendment to the relevant legislation has now been published and confirms that any such deficit is to be held in an unusable reserve from 1 April 2020. This matter is presentational in nature and does not affect the total general fund and earmarked reserves balances shown in the financial statements. The value of the deficit is not material to the Council's financial statements.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud committed by users of services provided by the Council (blue badges and adult social care personal budgets for example). We requested confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

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 Planning Report on 23 March 2020.

Internal audit

We reviewed the audit work of the Group's internal audit function although we did not place reliance on their work in respect of their assessment of control processes.

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 and significant matters in connection with related parties.

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.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them.

There are two unadjusted audit differences identified by our audit work which would reduce the deficit on the provision of services for the year of £131.513 million by £2.915 million and would increase net assets of £1.289 billion by £2.915 million.

The first unadjusted audit difference is a projected value based on the error rate in our sample of creditor balances selected for testing.

£2.025 million of the projected misstatement of £2.915 million has arisen following comparison of estimates made by the Council when preparing the accounts to the supplier invoices subsequently received. We have compared the estimate to the invoice and identified that the estimate was overstated. We are satisfied that the estimate made by the Council was not unreasonable and our projected misstatement reflects more accurate information being available at the date of audit. The actual value of the differences between the estimate recognised in the financial statements and invoices subsequently received was £78,814.

The general fund balance would increase by £2.195 million if this audit difference was adjusted.

As reported on page 13, our audit procedures relating to valuations of specialised assets and subsequent analysis undertaken by the Council identified an estimated understatement of £18.250 million of land and buildings. This unadjusted misstatement has no impact on the general fund.

Following discussion it was agreed that the above unadjusted audit differences are not to be processed. You consider the difference to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Retained deficit on the provision of services for the year before adjustments	131,513				
Adjustment 1: Projected overstatement of creditors due to more accurate information being available at the date of audit					
DR Short term creditors				2,195	
CR Expenditure			(2,195)		
Adjustment 2: Estimated maximum understatement of specialised asset carrying values					
DR Property, plant and equipment				18,250	
CR Revaluation reserve					(18,250)
Total unadjusted audit differences	**(2,195)**		**(2,195)**	**20,445**	**(18,250)**
Deficit on the provision of services for the year if above issues adjusted	129,318				

Contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Impact on the General Fund balance	General Fund balance £'000
Balance before unadjusted audit differences	(56,439)
Impact on surplus on the provision of services above	(2,195)
Adjustments that would be reversed from the General Fund through the Movement in Reserves Statement	-
Balances after the above adjustments	**(58,634)**

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

There were two audit differences identified by our audit work that were adjusted by management.

The first difference relates to the presentation of bank balances in an overdraft position on the face of the balance sheet, which were shown net against positive cash and cash equivalent balances. This audit difference also affects the prior year resulting in a prior period adjustment being made to the comparative values in the balance sheet:

- At 31 March 2019, overdraft balances of £52.242 million were shown net against the cash and cash equivalents balance
- At 31 March 2020, overdraft balances of £17.718 million were shown net against the cash and cash equivalents balance

The table on the following page shows the accounting entries processed in relation to this adjustment.

The second audit difference relates to the classification of cash outflows relating to REFCUS. This audit difference also affects the prior year resulting in a prior period adjustment being made to the comparative values in the cash flow statement and supporting notes:

- At 31 March 2019, REFCUS outflows of £69.862 million were shown as investing cash flows rather than operating cash flows
- At 31 March 2020, REFCUS outflows of £74.640 million were shown as investing cash flows rather than operating cash flows

This adjustment affects the cash flow statement and associated notes only so is not shown in the table on the following page.

These adjustments have no impact on the deficit on the provision of services, the total value of cash balances held by the Council or the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Retained deficit on the provision of services for the year before adjustments	131,513				
Adjustment 1: Presentation of overdraft balances gross on balance sheet					
DR Current assets - cash and cash equivalents at 31 March 2019				52,242	
CR Current liabilities – cash and cash equivalents at 31 March 2019					(52,242)
DR Current assets - cash and cash equivalents at 31 March 2020				17,718	
CR Current liabilities – cash and cash equivalents at 31 March 2020					(17,718)
Retained deficit on the provision of services for the year after adjustment	131,513				

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.

The following adjusted disclosure matters were noted:

- We identified that in Note 28 – Cash Flows from operating, investing and financing activities, the cash inflows from the proceeds of short and long term investments and the cash outflows from the purchase of short and long term investments were shown as net rather than gross. The adjustments made are as follows:
- For 2018/19
  - Proceeds from short and long term investments have been amended from £120.968 million to £454.468 million
  - Purchases of short and long term investments has been amended from £0.369 million to £333.869 million.

  For 2019/20
  - Proceeds from short and long term investments have been amended from £0.413 million to £523.713 million
  - Purchases of short and long term investments has been amended from £25.000 million to £548.300 million.

  This matter has no impact on the value of investments held by the Council.

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REPORTING ON OTHER INFORMATION

Contents

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.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
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.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council met 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.

OVERVIEW

Contents

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.

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.

As identified in our Audit Planning Report we assessed the following matter as being the most significant risk regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required savings may not be delivered.	Sustainable resource deployment	Significant	No

Following the UK government's response to the Covid-19 pandemic in March 2020, and the announcement on 23 March 2020 of severe restrictions on the public, the National Audit Office updated its Auditor Guidance Note on Value for Money Arrangements in April 2020. This clarified that for the 2019/20 audit, auditors are only expected to consider the Council's response to Covid-19 in so far as it relates to the 2019/20 financial year.

Covid-19 has significant implications for local authorities, who need to adjust to both significant increases in demand for some services, such as health and social care, and new ways of working. However, as the government announcement came only a week before the end of the financial year, authorities are not expected to have formally assessed the impact on their arrangements and decision-making processes before the end of the financial year. Therefore, we have not considered the Council's response to Covid-19 in any detail in the 2019/20 use of resources audit. We will consider this as part of our planning work for the 2020/21 audit, to support the commentary on arrangements under the new Code of Audit Practice applicable from 2020/21.

SUSTAINABLE FINANCES

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

Risk description

The Organisation Plan 2020/21, approved by the Council in February 2020, includes a Medium Term Resources Strategy (MTRS) to 2023/24 that forecasts inflationary pressures and continuing increasing demand for social care services, with considerable uncertainty around central government funding from 2021/22.

Significant levels of savings are required to balance the budget in each year of the MTRS.

The 2020/21 budget assumes £58 million of savings and increased income. 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 and development of the Council's fostering service.

The MTRS indicated that the Council still needs to find a further £71 million of savings over the medium term to 2023/24. This position may improve or deteriorate when funding becomes more certain.

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 2019/20 and progress against the 2020/21 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; and
- 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.

SUSTAINABLE FINANCES 1

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

Overall conclusion

We are satisfied the Council has adequate arrangements for business planning, budget setting, 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 in 2019/20 and is expected to deliver the majority of its savings for 2020/21, either through planned methods or through mitigating actions.

The MTRS in February 2020 reflects known savings and cost pressures and the key assumptions are reasonable, although there is significant uncertainty in future funding levels.

The MTRS indicated unidentified savings gaps of £71 million by the end of 2023/24. This gap is expected to increase as a result of council tax and business rate funding decreases during the Covid-19 pandemic.

If no further savings are made in 2021/22 to 2024/25 above those already identified, we understand that the Council would have sufficient reserves to cover this shortfall in the medium term, if necessary, and maintain its general fund balance at 6% of the net budget.

The financial position remains challenging, as each year of the MTRS requires savings to be achieved recurrently. The Council would not have sufficient reserves to cover its cumulative savings requirement by the end of the MTRS period if it does not continue to demonstrate strong leadership and action in achieving the planned savings. However, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

SUSTAINABLE FINANCES 2

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

Detailed results

Financial outturn for 2019/20

The Council delivered £62.7 million of reduced costs/increased income in the year, which exceeded the savings target of £59.6 million. Of this, £43.1 million savings were delivered by the original planned method, £3.1 million savings were over-delivered and £16.5 million planned savings were not delivered but were covered by alternative mitigation actions (such as savings or deferred expenditure in other areas).

Overall the Council achieved an underspend of £6.3 million against its final estimate for the year. This related to:

- £3.4 million net under spend on interest, capital financing and dividends (due to higher than planned investments and deferral of external borrowing for capital financing purposes until the end of the financial year);
- £6 million net underspend by services, largely in adult social care (following a review of day care packages and direct payments), infrastructure (following recovery measures) and a one-off saving from an actuarial valuation of insurance liabilities;
- Partly offset by £1.5 million lower than expected government grants and £1.6 million additional appropriations into earmarked reserves.

The net underspend was transferred into earmarked revenue reserves. As a result, the Council closed the year with a general fund balance of £56.4 million, a decrease of £171,000 over the prior year balance. This remains at the 6% minimum level recommended by the Section 151 officer.

Earmarked general reserves increased by £44.1 million in the year, to £339 million at 31 March 2020. 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 2020 is £234.4 million. The remaining £104.6 million of unrestricted earmarked reserves and reserves earmarked for future capital investment at 31 March 2020 will support carried forward expenditure from 2019/20, provide a cushion against future risks, and assist the Council in achieving transformational change and efficiencies.

SUSTAINABLE FINANCES 3

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

Progress against the 2020/21 budget

The 2020/21 budget includes a savings requirement of £57.7 million for the year. As at period 6, management was forecasting that it would achieve £57.5 million savings, with these schemes being rated as follows:

- £42.3 million as 'Green' as they are on track to be delivered (either through the original planned method or through alternative methods);
- £5 million as 'Amber' as plans for some savings initiatives are still being developed and additional resources have been assigned to address the remaining gap;
- £9.4 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
- £0.8 million of proposed mitigation actions to compensate for non-deliverable saving schemes.

We have noted that management was prudent in its delivery risk assessments during 2019/20 and 2018/19, by only reporting savings as 'Green' when they had been fully delivered.

As at period 6, the forecast revenue overspend is £2.3 million (0.2%) for the year, mainly due to Covid-19 related pressures on Place and Public Health spend. The forecast overspend has reduced from £12.3 million as at period 3 and £5.2 million as at period 4, but increased from £2 million at period 5. Due to the uncertainty in predicting the full impact of Covid-19 on the Council's expenditure and government funding, further volatility in the forecast position may continue as the year progresses.

SUSTAINABLE FINANCES 4

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

Arrangements to identify savings

During 2019/20 officers carried out a detailed two-phase business planning process to ensure clarity around medium-term political direction and priorities and to develop detailed business plans to align with the strategic intentions. The aim of the process was to allow for business plans to set out transformation priorities and measures to deliver a balanced budget and MTRS. A significant amount of work was completed to identify savings to close the budget gaps and draft, four year business plans were presented to the corporate leadership team and members by the end of July 2019.

Internal Audit carried out an audit of 'Budget setting and medium term financial planning' in March 2020 and awarded a 'Satisfactory' assurance level. This means that there is basically a sound system of control, but there are some areas of weakness, which may put some objectives of the system or process objectives at risk. They concluded that the corporate business planning process is becoming more mature and beginning to demonstrate how medium term financial challenges will be addressed. However, they reported that there is a need to continue to improve the extent to which the business plans provide a consistent level of insight into how financial resources will be used to support any required improvements or transformational initiatives (e.g. investment required, savings or income to be achieved) and therefore effectively and sustainably address medium term financial challenges.

The business planning process during 2020/21 required business plans to be updated by the end of September 2020 to take account of early Covid-19 recovery/reimagine work and emerging budget propositions (savings and investments). We understand that the business plans will continue to be reviewed and updated during the 2021/22 budget setting process.

Whilst the identification of savings proposals is challenging and continues 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. We are also satisfied that there are adequate plans and monitoring arrangements underpinning individual savings schemes to support delivery.

SUSTAINABLE FINANCES 5

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

MTRS 2021 - 2024

The MTRS to 2023/24, which was approved by Cabinet in February 2020, made the following key assumptions about the medium term, which are considered reasonable in the circumstances as there is no formal confirmation of government funding beyond 2020/21:

- Revenue support grant will continue at the 2019/20 level (£19 million);
- The new social care grants (£23 million) will continue;
- No rate increase in council tax after the 1.99% increase and 2% social care precept in 2020/21, but a 1% increase in the tax base from housing growth, based on historic trends;
- Growth of 1% in business rates, based on historic trends and an inflationary uplift;
- 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, up to an estimated 10.8% of the net budget by 2023/24, as the Council plans to invest considerable sums through the capital programme over the medium term, some of which will help to deliver revenue savings; and

The MTRS assumed that the following movements in reserves by 31 March 2023:

- General fund balance unchanged;
- Increase in unrestricted earmarked reserves by £5.4 million; and
- Decrease in restricted earmarked reserves by £20.1 million, as reserves are used for the specific purposes for which they are held.

Overall, the MTRS indicated cumulative required savings of £177 million by the end of 2023/24. Savings totalling £106 million were identified (£58 million in 2020/21, £20 million in 2021/22, £14 million in 2022/23 and £14 million in 2023/24). This left a gap of £71 million, with £14 million to be found in 2021/22.

SUSTAINABLE FINANCES 6

Contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some required 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 to be reported	

MTRS 2022 - 2025

A refresh of the MTRS by officers began in July 2020 and scenario modelling has been carried out. This has identified a larger budget gap for 2021/22, mainly due to the potential extent of funding decreases the Council faces from reducing council tax and business rates income during the pandemic. The 2021/22 gap is also impacted by undeliverable savings in 2020/21 that are being mitigated by one off actions.

The revised savings requirement for 2021/22 is below the average level of new savings of £60 million achieved, or expected to be achieved, in 2019/20 and 2020/21, although it is on top of previous savings that are expected to be achieved recurrently.

Work is in in progress to identify all required savings for 2021/22 and to reduce the budget gap over the medium term.

Contingency

The half year financial review presented to Cabinet in October 2020 forecasts the following reserves by 31 March 2021, (movements compared to the balance at 31 March 2020 per the financial statements are shown in brackets):

- General Fund balance of £66.6 million (increase of £10.2 million);
- Unrestricted earmarked reserves of 106 million (increase of £1.4 million); and
- Restricted earmarked reserves of £180.7 million (decrease of £53.7 million).

In the event that no new savings are identified or achieved to close the budget gap by 2024/25, the Council has sufficient unrestricted earmarked reserves and general fund to cover this shortfall in the medium term, if necessary, and retain the general fund balance at the minimum 6% level.

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

Our opinion includes an 'emphasis of matter' paragraph regarding the material uncertainty attached to both the valuation of the Council's land and buildings (including investment property) and the valuation of property assets held by the pension fund.

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

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Audit certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the 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.

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 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

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 Group.

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 Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	(1) 134,420		126,265
• Additional fee for risk related work	(2) 3,000		N/A
Non-audit assurance services	137,420		126,265
Fees for other non-audit services			
• Teachers' pensions return	12,000		12,000
Total fees	**149,420**		**138,265**

(1) The increase in the core audit fee of £8,155 reflects the increased expectations relating to the work necessary to audit valuations of non-current assets, pension liabilities and group accounts. This does not include work necessary to audit the actuary's data cleansing exercise undertaken as part of their triennial valuation of the Pension Fund which is included as an element of assurance work in that Audit Planning Report and so not duplicated here.

(2) The additional fee for risk related work covers the following risks:

- Disposal of Essex Education Services
- Termination of Tendring PPP

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

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 consolidated 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 had 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

	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 WITH YOU

Contents

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 Planning Report	6 March 2020	Audit, Governance and Standards Committee
Audit Completion Report	30 November 2020	Audit, Governance and Standards Committee
Annual Audit Letter	TBC	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on the conclusion of these matters at the Audit, Governance and Standards Committee meeting at which this report is considered:

Conclusion of audit procedures relating to:

- Group consolidation

Completion of audit procedures programmed for the end of fieldwork:

- Manager, partner and quality control reviews and clearance of review points
- Clearance of technical review (including wording of audit report)
- Subsequent events review
- Management letter of representation, as attached in Appendix E to be approved and signed

DRAFT AUDIT REPORT

Contents

DRAFT 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 2020 which comprise the Council and group Comprehensive Income and Expenditure Statement, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets, 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; 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 the 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, Finance and Technology use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director, Finance and Technology 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.

DRAFT AUDIT REPORT 2

Contents

Emphasis of matter - valuation of land and buildings (including investment properties) and Pension Fund assets

We draw attention to Note 3 to the financial statements, which refers to the outbreak of the Novel Coronavirus (COVID-19) and the impacts on global financial markets. In respect of the Council's property assets the Note explains that the Council can attach less weight to previous market evidence to inform opinions of value as at 31 March 2020. The Council's valuations are therefore reported on the basis of 'material valuation uncertainty' per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. The Note explains that, consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

The valuation of land, buildings and investment property of £1.491.93 million have therefore been reported on the basis of a 'material valuation uncertainty'.

Note 3 also explains that valuations applied by the Pension Fund to property, equity and other investments are also reported on the basis of a material valuation uncertainty.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director, Finance and Technology 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 April 2020, 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 2020.

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 not misleading or inconsistent with other information that is forthcoming from the audit;

DRAFT AUDIT REPORT 3

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- 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.

Responsibilities of the Executive Director, Finance and Technology and the Council

As explained more fully in the Statement of the Executive Director, Finance and Technology, the Executive Director, Finance and Technology 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, Finance and Technology 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.

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.

DRAFT AUDIT REPORT 4

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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, Key Audit Partner
For and on behalf of **BDO LLP**, Appointed Auditor
Ipswich, UK
30 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

Contents

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA - deal with failures more quickly and more stringently Published June 2019.

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LATEST REGULATORY DEVELOPMENTS 4

Brydon

Contents

In December 2019 Sir Donald Brydon published his "Report of the Independent Review in to the quality and Effectiveness of Audit" . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors' Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: " The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."
- Recognition of other stakeholders alongside the company's shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for 'professional suspicion' alongside 'professional scepticism';
- Replace 'true and fair' with 'present fairly, in all material respects';
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors' statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

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FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEES

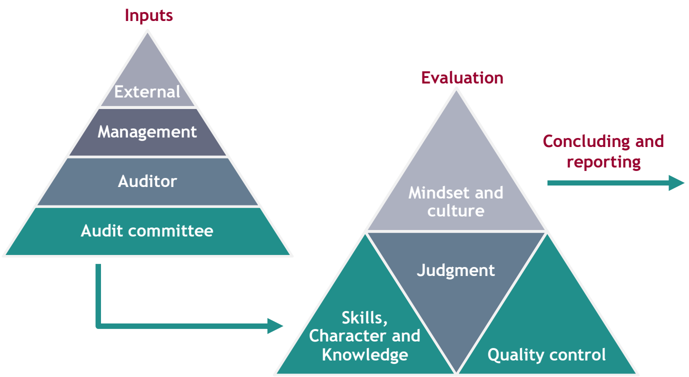
Contents

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

LETTER OF REPRESENTATION

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex County Council for the year ended 31 March 2020

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 2020 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, Finance and Technology 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 2020 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.

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

Other than those disclosed in the financial statements, 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.

LETTER OF REPRESENTATION 2

Contents

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 38 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council 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 2.7%
- CPI increase 1.9%
- Salary increase 2.9%
- Pension increase 1.9%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 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.

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

Nicole Wood
Executive Director Finance and Technology

XX November 2020

Councillor Anthony Hedley
Chair of the Audit, Governance and Standards Committee

XX November 2020

AUDIT QUALITY

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 FRC'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

FOR MORE INFORMATION:

David Eagles

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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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

www.bdo.co.uk

Agenda item 4

Report title: 2019/20 Audit Completion Report for the Essex Pension Fund	**AGS/89/20**
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 30 November 2020	For: Noting
Enquiries to: Nicole Wood, Executive Director, Finance and Technology **email** nicole.wood@essex.gov.uk **Tel.** 07946 705816 or Samantha Andrews, Investment Manager **email** Samantha.andrews@essex.gov.uk **Tel.** 03330 138501	
Divisions affected: All Essex	

1. Purpose of report

1.1 The purpose of this report is to present BDO's 2019/20 Audit Completion Report for the Essex Pension Fund, as appended.

2. Recommendations

2.1 None – the report is for information only.

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 2019/20 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 2019/20.

10. List of Background Papers

10.1 None.

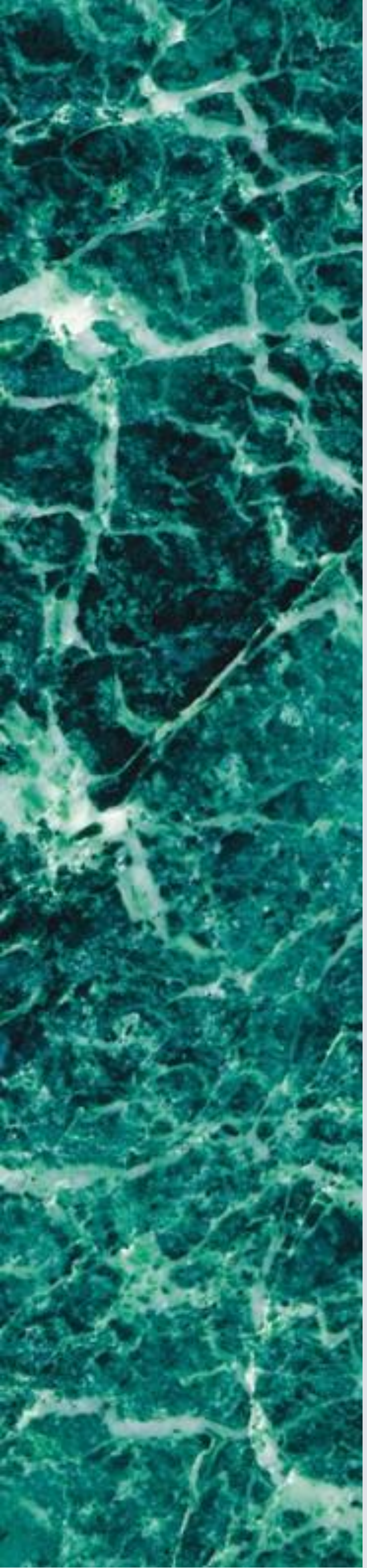
Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Completion Report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST

BDO



CONTENTS

WELCOME

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 2020, 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, Appointed Auditor

16 September 2020

David Eagles
Engagement lead

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OVERVIEW

Executive summary

Contents

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 2020.

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 2020 in line with the revised timetable.

Outstanding matters are listed on page 35 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 financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

THE NUMBERS
Executive summary

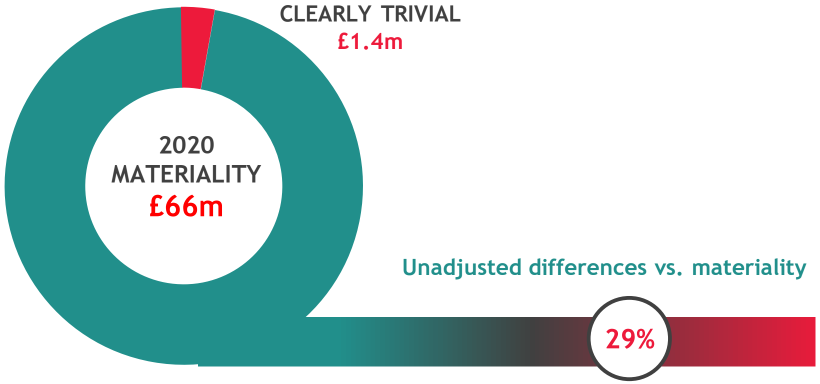
Contents

Final materiality

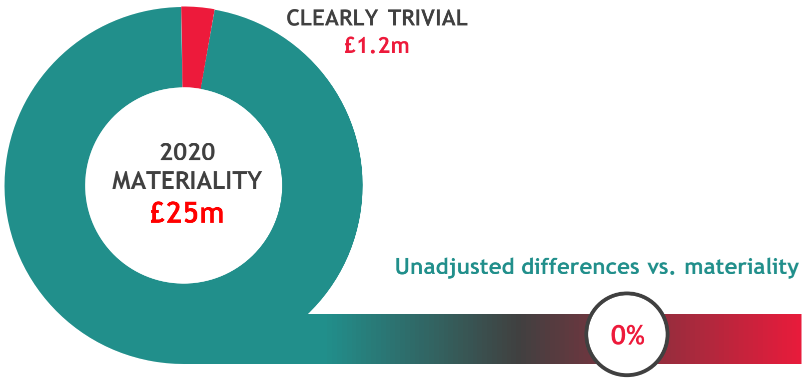
Final materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances (excluding changes in market value of investments) and this was based on 7.5% of gross expenses in the Fund Account.

Following receipt of the draft financial statements for audit we updated the materiality figures. This decreased the materiality from £70m to £66m. Specific materiality for Fund Account was increased from £24m to £25m.

FINANCIAL STATEMENTS OVERALL MATERIALITY



FUND ACCOUNT SPECIFIC MATERIALITY



Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified two audit adjustments that, if posted, would increase the 'Net decrease in the assets available for benefits during the year' in the Fund Account and decrease 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £19,123k.

Contents

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 review the annual report 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 (FRC's) Ethical Standard.

CORONAVIRUS

The effects on year-end reporting and auditing

Contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, directors are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the directors' assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of directors' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

Contents

Financial reporting implications

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Pension Fund Annual Report

Pension Funds will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Annual Reports.

Other guidance

The National Audit Office (NAO) has published a Guide for Audit Committees on financial reporting and management during the Cornavirus pandemic. This guide aims to help Audit Committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help Audit Committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and Audit Committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS 3

The effects on year-end reporting and auditing

Contents

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of investment assets
  - Going concern assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Pension Fund Annual Report, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of directly held properties, auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Pension Fund's financial statements and may be referred to by the auditor in their opinion/report.

OUR METHODOLOGY
Summary

Contents

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Fund Account and Net Assets Statement would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report 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 Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	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	Yes	Yes, unadjusted	No	No
Pension liability valuation	Significant	Yes	Yes	No	No	Yes - management representation about pension assumptions
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	No	No	No

Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

Contents

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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:

- We reviewed journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- 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.

Material accounting estimates for the Pension Fund included valuation of investments and pension liability. Our audit work on these accounting estimates are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

We have not identified any management bias or deliberate misstatements by reviewing the unadjusted audit differences.

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)

The valuation of unquoted and direct property investments is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
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 consider 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 requested copies of the audited financial statements (and member allocations) from the fund;

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Results and conclusions

The direct confirmations obtained from fund managers identified that the valuation of private equity was overstated by a non material amount of £3,621k, with a total overstatement of investments of £5,239k across all categories of investments. These variances are due to some investment reports used during the preparation of financial statements not being coterminous with the year-end date and therefore estimates needed to be made. The updated information was available during the audit which identified the above variances against the estimated amounts used. The variance identified was included within the uncorrected misstatements schedule for the impact of change in market value in the Fund Account and investment value in the Net Assets Statement.

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. Given the extended period to prepare financial statements during the year, net asset statements at 31 March 2020 were available for the investment in illiquid debt, infrastructure and timberland. Our recalculations of valuations for these investment categories did not identify any non-trivial variances.

In respect of private equity investments, the valuations were initially based on net assets as at 31 December 2019, adjusted for additional contributions and distributions. However, given the impact of Covid-19, the valuations were further reduced by 4.95% based on an estimate provided by the private equity fund manager. For a sample of private equity funds, we have recalculated the valuations based on the net assets at 31 December 2019, adjusted for additional contributions and distributions, and also with the same adjustment of 4.95%. This identified all but one of the sampled items having valuations which were in line with the valuations reported. The variance identified in the remaining sampled item was due to the uncorrected misstatement of £3,621k reported above.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

Continued

(Continued)

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	■

- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- For property valuations, we agreed input data used by the valuer such as agreeing rental information to the underlying rental agreements, and reviewed the rental yields against the comparable data and indices for reasonableness;
- Where the financial statement date supporting the valuation is not conterminous 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
- Checked whether the investments have been correctly valued in accordance with the relevant accounting policies.

We also reviewed reasonableness of the 4.95% adjustment referred to above as having been made to private equity valuations to account for the valuation reduction from January to March 2020, due to the impact of Covid-19. We reviewed industry sectors where each of the private equity funds have invested in, and identified that 80% of investments were made in the sectors which were not significantly affected by Covid-19. 18.7% of investments were made in the consumer discretionary sector with another 1.3% in real estate, which are considered to be some of the sectors most heavily affected. To further assess the reasonableness of this adjustment, we obtained partners' capital accounts at 31 March 2020 for the same sampled items referred to above, and reviewed the extent of valuation movements. This identified that, on average, the valuations had decreased by 8.83%. This is 3.88% higher than the adjustment applied by the pension fund. When this is applied to the total private equity valuation reported in the financial statements, this gives an overstatement of private equity investments by £13,884k which was included in the uncorrected misstatements schedule.

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. Our review of the input used by the valuer (i.e. rental information) confirmed that they are accurate and reasonable. The overall valuation of investment properties has decreased by approximately 4.9% during the year to £398m. The MSCI sector capital value index has decreased by 5.0% during the year, with the MSCI sector rental value index decreasing by 1.0%. The overall decrease in valuation (£20.4m) is therefore considered to be reasonable and is well within out materiality of £66m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

The valuer of the property assets has included a material valuation uncertainty disclosure due to Covid-19 within their valuation report. This disclosure has also been included within the Pension Fund financial statements and we anticipate including an Emphasis of Matter paragraph within our audit opinion to refer to this.

PENSION LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2020 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

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:

- Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Tested a sample of membership and cash flow data sent to the actuary for existence and accuracy, and reconciled the membership data sent to the actuary to the membership administration system for completeness;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Agreed the disclosure to the information provided by the actuary.

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 to be reported	
Letter of representation point	

Results and conclusion

The Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. Our review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

We obtained the final data return submitted to the actuary in respect of the triennial valuation and agreed number of members to the UPM system. We reconciled the number of members by each category (active members, deferred members and pensioners) per the final data return to the membership data reported in the final triennial valuation report. We selected a sample of 40 members across the whole pension fund, split into the active members, deferred members and pensioners (including dependent pensioners), and tested the key data points such as date of birth, gender, pensionable salary and qualifying service period etc. to underlying supporting documents. Our audit work did not identify any issues.

In respect of cash flow data provided to the actuary for the triennial valuation, we identified no issues. However, testing of the cash flow data provided to the actuary for the roll forward valuation at 31 March 2020 identified some differences between the estimated contributions based on month 10 actual amounts plus two months estimates and the actual amounts for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

The annual data return template from the actuary included details of bulk transfers as these are estimated by the actuary. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that any significant changes in membership data have been communicated to the actuary.

We agreed the disclosures in Note 16 to the pension fund financial statements to the information provided by the actuary and have identified no issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary has made an allowance at the last accounting date and therefore was already included in the opening liability for this year. This allowance was therefore incorporated in the roll forward approach and the actuary has confirmed that this was re-measured 31 March 2020. The approach adopted by the actuary is considered to be reasonable.

PENSION LIABILITY VALUATION

Continued

Significant accounting estimate: 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 2019/20

The actuarial valuation of future benefits has decreased by £546 million, from £9,805 million to £9,259 million.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.40% to 1.90%) and decrease in salary increase (from 3.90% to 2.90%), which was partially offset by reduction to the discount rate (from 2.40% to 2.35%). Mortality assumptions have not been changed significantly during the year, as such this has resulted in a decrease in the liabilities from these actuarial assumptions only by £95 million (1%). The liability has increased by £131 million (1.3%) due to experience loss.

Discussion

The pension liability to pay future pensions has decreased by £546 million to £9,259 million at 31 March 2020.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
RPI increase	2.70%	2.65% - 2.80%	Reasonable
CPI increase	1.90%	1.85% - 1.95%	Reasonable
Salary increase	2.90%	2.85% - 2.95%	Reasonable
Pension increase	1.90%	1.85% - 1.95%	Reasonable
Discount rate	2.35%	2.35%	Reasonable
Mortality - LGPS:			
- Male current	23.2 years	22.8 - 24.7	Reasonable
- Female current	25.2 years	25.2 - 26.2	Reasonable
- Male retired	21.8 years	21.4 - 23.3	Reasonable
- Female retired	23.7 years	23.7 - 24.7	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The pension liability has increased by £131 million due to experience loss, which represents 1.3% of opening liability. This is considered to be reasonable given the inherent limitations of roll forward approach.

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 INVESTMENTS (POOLED INVESTMENT)

There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation are reported on a monthly/ 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;
- Checked 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 conclusion

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 agreed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

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 were not coterminous with pension fund year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian.

CONTRIBUTIONS RECEIVABLE

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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 and 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 checked 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 conclusion

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 confirmed that these have been recognised in the correct financial year.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Council (as administering authority) and the Executive Director, Finance and Technology 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 Planning Report on 23 March 2020.

Internal audit

We reviewed the audit work of the Pension Fund's internal audit function to assist our risk scoping at the planning stage.

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.

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 and significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

We are required to bring to your attention unadjusted differences and we request that you correct them.

We identified two audit adjustments that, if posted, would increase the ‘Net decrease in the assets available for benefits during the year’ in the Fund Account and decrease ‘Net assets of the scheme available to fund benefits’ in the Net Asset Statement by £19,123k.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Assets Statement	
Unadjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Net decrease in the assets available for benefits during the year	399,663				
Adjustment 1: The difference between the investment valuation per draft accounts and fund manager confirmations (see page 13)					
DR Changes in market value of investments	5,239	5,239			
CR Investments					5,239
Adjustment 2: Potential overstatement of private equity investments due to the movement in valuation from 31 December 2019 to 31 March 2020 (see page 14)					
DR Changes in market value of investments	13,884	13,884			
CR Investments					13,884
Total unadjusted audit differences	**19,123**	**19,123**	**-**	**-**	**19,123**
Net decrease in the assets available for benefits during the year if above issues adjusted	**418,786**				

UNADJUSTED 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.

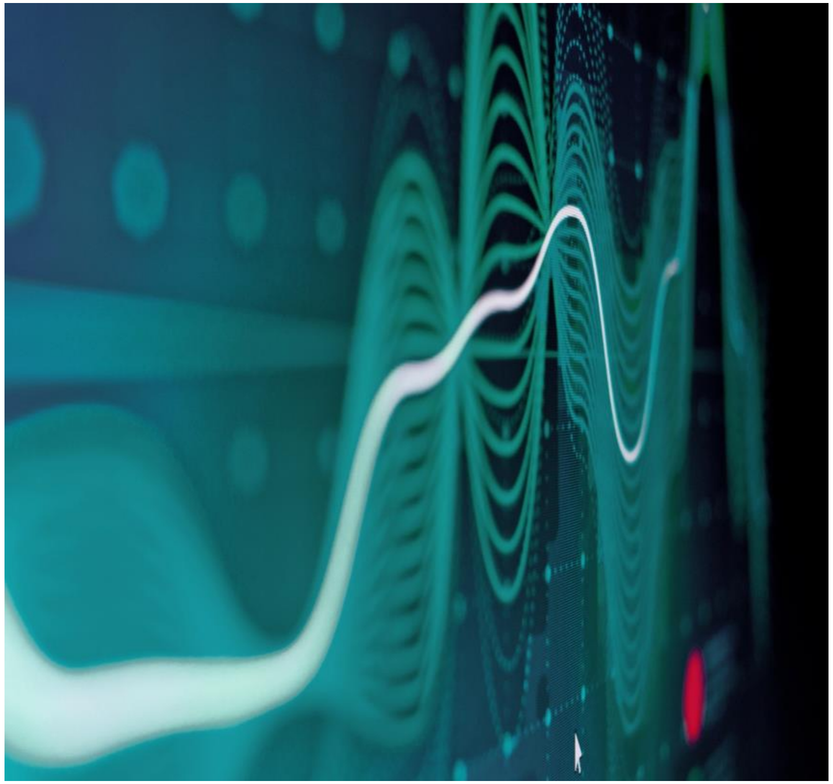
The following unadjusted disclosure matter was noted:

- Investment management expenses do not include disclosure in respect of performance related fees.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



There were no audit differences identified by our audit work that were adjusted by management.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following adjusted disclosure matters were noted:

- A number of prior year restatements had been made within notes to the pension fund accounts which were not material. These were removed in the updated financial statements.
- The Code requirements relating to the disclosure of fair value hierarchy and financial instruments had been combined in one note, which in some instances resulted in the disclosures which were not in line with the Code. Management has subsequently included two separate notes in line with the Code guidance.
- A number of immaterial disclosures have been removed from the financial statements.
- A number of minor disclosure corrections and enhancements throughout the financial statements.

REPORTING ON OTHER INFORMATION

Contents

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 review the pension fund Annual Report 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.

SIGNIFICANT DEFICIENCIES

Contents

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 in internal controls.

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or 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 review the pension fund annual report 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.

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 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

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.

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 Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Fees:			
Code audit fee	(1) 28,000	(1) 28,000	24,075
Additional fee for IAS19 assurance requests from scheduled bodies	(2) 12,250	(2) 11,500	5,500
Total fees	**£40,250**	**£39,500**	**£29,575**

(1) The increased code audit fee reflects the increased expectations relating to the work necessary to audit valuations of pension investments (particularly unquoted and direct property investments) and the fund liability applied nationally. The fee variation is subject to PSAA approval.

(2) The increased assurance requests fee of £6,000 represents the work necessary in 2019/20 to audit the data cleansing work undertaken by the actuary in connection with the triennial valuation of the pension fund liability (and asset allocations). This element is only relevant in the year of triennial valuation and will not recur until the next triennial valuation (i.e. 2022/23). The increase in actual fee from the planned fee is due to a request received from an additional body (from the NAO in respect of CQC).

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

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 members of the Council (as the Administering Authority).

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.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	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 WITH YOU

Contents

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 Planning Report	23 March 2020	Audit, Governance and Standards Committee
Audit progress report	At the Audit, Governance and Standards Committee meetings	Audit, Governance and Standards Committee
Audit completion report	28 September 2020	Audit, Governance and Standards Committee

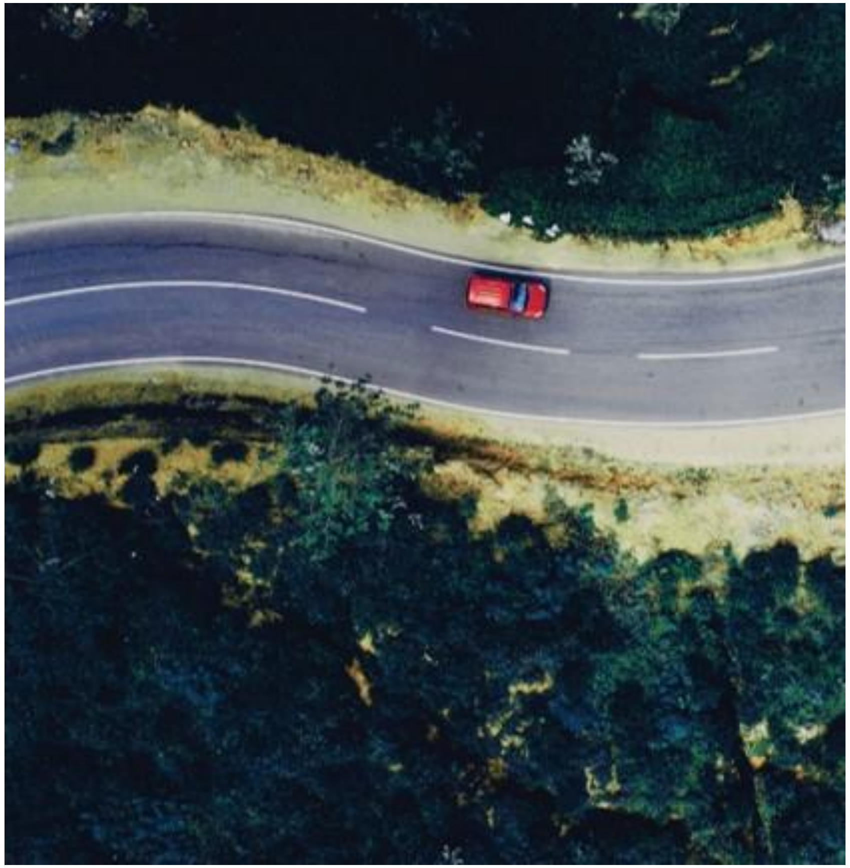
OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

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:

- Completion of partner, manager and quality control review of the audit file and clearance of review points
- Completion of the review of pension fund annual report
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed



LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

Contents

A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

Contents

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of Audit Committee / Pensions Committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

Contents

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA - deal with failures more quickly and more stringently Published June 2019.

LATEST REGULATORY DEVELOPMENTS 4

Brydon

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee / Pensions Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;
- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees / Pensions Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee / Pensions Committee Chair and the auditor.

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LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

FRC ETHICAL STANDARD

Issued in December 2019

Contents

In December 2019 the FRC published the Revised Ethical Standard 2019 (‘ES’), which is applicable from 15 March 2020. There are some transitionary provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to ‘work around’ the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a “white-list” of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest (‘OEPI’)	OEPI is a new term in the Ethical Standard. The FRC have imposed the ‘white-list’ applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd’s syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEE / PENSIONS COMMITTEES

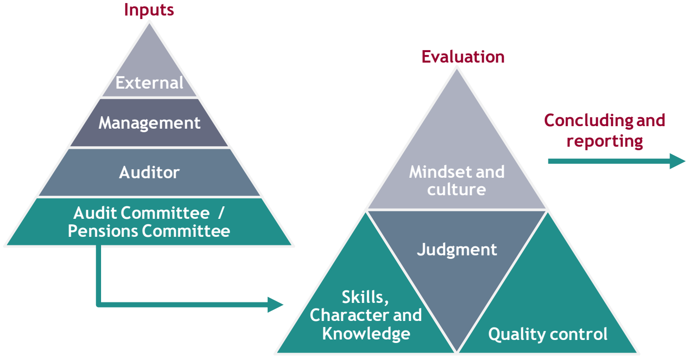
Contents

The FRC issued an updated practice aid for Audit Committees / Pensions Committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of Audit Committee in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the Audit Committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees / Pensions Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by Audit Committees / Pensions Committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the Audit Committee / Pensions Committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich

Dear Sir / Madam

Financial statements of Essex Pension Fund for the year ended 31 March 2020

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 2020 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, Finance and Technology 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 Pension Fund as of 31 March 2020 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 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 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.

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.

Post balance sheet events

Other than those disclosed in the financial statements, 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 14 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 fair 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 2.70%
- CPI increase 1.90%
- Salary increase 2.90%
- Pension increase 1.90%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 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.

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 officer and member has taken all the steps that they ought to have taken as an officer 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

Nicole Wood

Executive Director, Finance and Technology

S151 Officer, Essex County Council & Essex Pension Fund

Date:

Cllr Anthony Michael Hedley

Chairman of the Audit, Governance and Standards Committee

Date:

AUDIT QUALITY

Contents

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 FRC'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

FOR MORE INFORMATION:

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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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda item 5

Report title: 2019/20 Statement of Accounts	**AGS/90/20**
Report to: Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Finance and Technology	
Date of meeting: 30 November 2020	**For:** Approval
Enquiries to Nicole Wood, Executive Director, Finance and Technology **email** nicole.wood@essex.gov.uk **Tel.** 07946 705816 or Christine Golding, Chief Accountant **email** christine.golding@essex.gov.uk **Tel.** 03330 138401	
Divisions affected: 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 2019/20 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 2019/20 and those for the Essex Pension Fund.

iii. Present an updated draft of the Council's 2019/20 Statement of Accounts, which has been amended to address matters arising during the 'final accounts audit' carried out by BDO LLP.

iv. Present an updated draft of the Council's 2019/20 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. Agrees not to adjust the 2019/20 Statement of Accounts for the non-material unadjusted misstatements and unadjusted disclosure omissions and improvements identified within the Audit Completion Reports for the Council and Pension Fund;

iii. Approves the updated draft of the 2019/20 Annual Governance Statement, which is included in the Statement of Accounts document (*pages 201 to 222 of **Appendix A***);

iv. Approves the updated draft of the 2019/20 Statement of Accounts (*attached as **Appendix A** to this report*); and

v. Notes the representations that the Executive Director for Finance and Technology 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

3.1 The draft Statement of Accounts for 2019/20 was certified by the Executive Director for Finance and Technology on **30 June 2020**.

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 **30 November 2020** for publication of its Statement of Accounts for 2019/20 (*note that the statutory deadline is later this year, as the government extended the timetable in response to the Covid-19 pandemic*).

4 Responsibilities and timeframes relating to the Statement of Accounts

4.1 The respective responsibilities, and timeframe, for the approval and publication of the 2019/20 Statement of Accounts are as follows:

Deadline	Actions
31 Aug 2020	The Executive Director for Finance and Technology, 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. **The 2019/20 Accounts were certified on 30 June, and they were released for external audit and public inspection on 1 July 2020.**
30 Nov 2020	The Statement of Accounts must be re-certified by the Executive Director for Finance and Technology and, following approval by the Audit, Governance and Standards Committee, by the Chairman of the Committee.
	The Executive Director for Finance and Technology 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 2020.

Deadline	Actions
30 Nov 2020	The Key Audit Partner will certify his opinion on the accounts upon conclusion of the audit.
	The Statement of Accounts will be published on the Council's website.

5 Financial statements

5.1 The Statement of Accounts was presented to the Committee, in draft, on **6 July 2020**. Some amendments have been made to the Council's Accounts since then. An explanation of the more significant amendments is provided in the following paragraphs.

5.2 Cash and cash equivalents

The pooled bank account balances with the Council's own banker have been disaggregated from cash and cash equivalents in the Balance Sheet and are now shown separately as a bank overdraft (within current liabilities). The opening and closing comparative figures for the prior year have been restated on a consistent basis. The note on cash and cash equivalents (**Note 22**) has also been updated for this change.

5.3 Cash Flow Statement and Cash Flow Note (Note 28)

Revenue expenditure funded from capital under statute has been recategorised as a cash outflow arising in relation to operating activities, rather than in relation to investing activities. In addition, the cash inflows and outflows arising in relation to investments have been restated to show the gross turnover in the year, rather than the net movement between the opening and closing positions for the year.

Neither of these adjustments alter the net increase in cash and cash equivalents, as previously presented.

For both of these changes, comparative figures for the prior year have been restated on a basis consistent with the 2019/20 presentations.

5.4 Note on assumptions made about the future and other major sources of estimation uncertainty (Note 3)

The notes on property, plant and equipment and investment property values and the pensions liability have been updated to include additional explanatory comments on the material valuation uncertainty that existed at 31 March 2020 because of the COVID-19 pandemic.

5.5 Notes on Financial Instruments (Note 19)

Various updates have been made to these notes to:

- Reflect the re-categorisation of the pooled bank balances as a bank overdraft (as per paragraph 5.2 above);

- Update the estimate of the fair value of PFI liabilities (note **19.4**); and
- Include interest liabilities in the maturity analysis of existing financial liabilities (Note **19.6**).

Comparative figures for the prior year have been restated on a consistent basis.

5.6 **Narrative Report**

The wording in the narrative report on the COVID-19 pandemic (pages 13 and 14 of the Statement of Accounts) has been updated to reflect the position up to the end of the audit of the 2019/20 Accounts.

5.7 **Group Accounts**

Where relevant, the Group Accounts have been updated to reflect the changes to the Council's own accounts, as outlined in the preceding paragraphs.

5.8 **Other changes**

The Council has made minor amendments to various other disclosure notes, mainly to improve clarity and / or to remove content that is not considered to be quantitatively nor qualitatively material.

6 Essex Pension Fund Accounts

6.1 Some amendments have also been made to the Essex Pension Fund Accounts. The following paragraphs provide an overview of these changes.

6.2 **Assumptions made about the future and other major sources of estimation uncertainty (Note 6)**

The notes on Property and Private Equity have been updated to include additional explanatory comments on the material valuation uncertainty that existed at 31 March 2020 because of the COVID-19 pandemic. The notes on the Property valuation techniques used have also been expanded.

6.3 **Payments to and on account of leavers (Note 9.4)**

A new disclosure note has been added that provides an analysis of payments to and on account of leavers; this replaces the previous note on transfers out to other schemes.

6.4 **Fair Value – Basis of Valuation (Note 17)**

Information on the basis of fair value valuations is now shown in a separate table within Note 17 and comparative figures for the prior year have been restated to show Property Unit Trusts as level three assets, rather than level two. In addition, further explanation has been provided of the basis of valuation, inputs and key sensitivities of level three assets.

6.5 **Other changes**

Various disclosure notes have been removed on the basis that they related to items neither quantitatively nor qualitatively material to the accounts. Some minor presentational amendments have also been made to various disclosure notes.

7 Updated draft of the Statement of Accounts

7.1 The 2019/20 Statement of Accounts, which is attached to this report at **Appendix A**, incorporates all the amendments outlined in sections 5 and 6 above.

7.2 At the time of writing this report, the external audit work was nearing completion, but with matters still 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.

8 Audit Completion Reports

8.1 The Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the agenda, summarise the findings from the 2019/20 audit, although it should be noted that the audit work was incomplete at the time of writing these reports.

8.2 The Audit Completion 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.

8.3 The reports state that the External Auditor expects to issue:

- an **unmodified** opinion on the financial statements, with an **emphasis of matter** related to valuation uncertainty on property, plant and equipment and pension liability values as a consequence of the Covid-19 pandemic;
- an **unmodified** opinion on the Council's arrangements to secure economy, efficiency and effectiveness in our use of resources.
- An **unmodified** opinion on the Essex Pension Fund financial statements, with an **emphasis of matter** related to valuation of directly held properties as a consequence of the Covid-19 pandemic.

The 'emphasis of matter' paragraphs in the auditor's reports for the Council and Essex Pension Fund are **not** audit qualifications. Their inclusion in the Auditor's reports means that, whilst the Auditor is content that the accounts appropriately present or disclose the financial position and performance of the

Council and Pension Fund for 2019/20, they believe it is important to highlight the material uncertainties surrounding these valuations as a consequence of the Covid-19 pandemic.

8.4 The Committee must consider the matters raised in the Audit Completion Reports before approving the 2019/20 Statement of Accounts.

8.5 The Audit Completion Report for Essex County Council refers to two non-material unadjusted misstatements in the Council's accounts.

8.6 The first non-material unadjusted misstatement relates to creditors (**£2.195m**). The unadjusted misstatement relates to an extrapolated error, which means that is an inferred rather than actual error.

8.7 The second non-material unadjusted misstatement (estimated at **£18.250m**) relates to Property, Plant and Equipment valued on a depreciated replacement cost basis in a year prior to 2019/20. The unadjusted misstatement is a judgmental misstatement concerning an accounting estimate. Judgemental misstatements arise where the external auditor and the Council have a different view of the efficacy of the accounting estimate.

8.8 Neither of these unadjusted misstatements are material to the financial statements, either taken as a whole, or in connection with the ability to properly assess the performance and/or financial position of the Council.

8.9 The Audit Completion Report also refers to the Council's accounting treatment of the Dedicated Schools Grant deficit of **£5.359m**. The Council has carried this deficit into a negative earmarked revenue reserve, in line with accounting guidance published by the Chartered Institute of Public Finance and Accountancy (the body responsible for defining local authority accounting practice) in March 2020. BDO are of the view that the Council should instead have offset this deficit against its General Balance. With effect from 2020/21 the Council will be required, by regulation, to transfer any deficit on its Dedicated Schools Grant to an unusable reserve.

8.10 The Audit Completion Report for the Essex Pension Fund refers to two unadjusted misstatements in the Pension Fund accounts which, if posted, would increase the 'Net decrease in the assets available for benefits during the year' in the Fund Account and decrease 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by **£19.123m**. The differences result from estimating private equity valuations as at 31 March 2020 because the actual data was not available when the draft Accounts were being compiled. The Fund has taken the decision not to amend the financial statements on materiality grounds, as the variance only represents **0.29%** of net assets.

8.11 The Audit Completion Report for the Essex Pension Fund also notes one unadjusted disclosure matter related to investment management expenses, as performance related fees have not been disclosed. This information has not been disclosed as it is not deemed to be material, either quantitatively or qualitatively.

9 Representation letters

9.1 Before the audit opinion for 2019/20 can be issued, the External Auditor requires the Executive Director for Finance and Technology 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.

9.2 The Committee is asked to note the representations that the Executive Director for Finance and Technology and Chairman of the Committee will be making on behalf of the Council and the Essex Pension Fund.

10 Annual Governance Statement

10.1 The Statement of Accounts document also includes the Annual Governance Statement (pages 201 to 222 of **Appendix A**). This is a statutory document which must be approved before the Committee approves the Council's Statement of Accounts.

10.2 The Statement was considered by the Committee in July. One amendment has been made to the Statement since then, to reflect a change to the target date for completion for the move of employees to Essex Pay from October 2020 to January 2021. Over 6,700 employees have moved to Essex Pay (EP) through an opt in or dismissal and re-engagement process. The approach has resulted in no recourse to an Employment Tribunal to date. There are 413 employees still to move to Essex Pay and the speed at which ECC has been able to progress this has been delayed by Covid19 as much of this employee group have been stood down for part of the pandemic period or have been on Furlough.

10.3 The Committee are now asked to approve the Annual Governance Statement.

11 Policy context and Outcomes Framework

11.1 This report presents the Council's 2019/20 Statement of Accounts for approval, which summarise the financial performance and financial position for the Council for the 2019/20 financial year. As such, it provides a financial representation of activities during 2019/20 against the Organisation Strategy.

12 Financial Implications

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

13 Legal Implications

13.1 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 30 November 2020.

14 Staffing and other resource implications

14.1 There are no staffing or other resource implications associated with this report.

15 Equality and Diversity implications

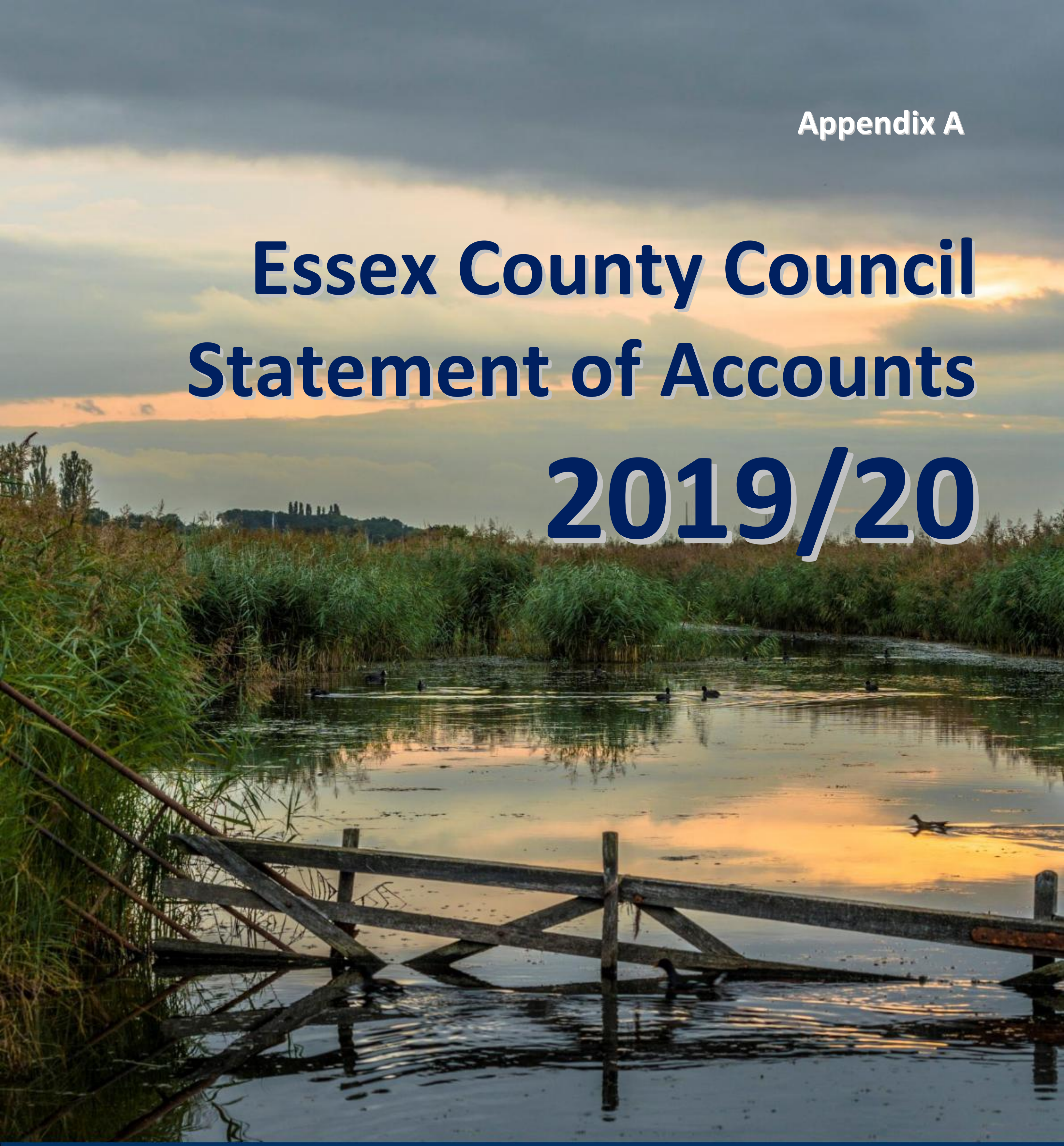
15.1 There are no equality and diversity, or other resource implications associated with this report.

16 List of appendices

16.1 Appendix A: **2019/20 Statement of Accounts**

17 List of Background Papers

17.1 Not applicable for this report.



Appendix A

Essex County Council Statement of Accounts 2019/20

Audit, Governance and Standards Committee – 30 November 2020

Essex County Council

Contents

Narrative Report 2019/20

Narrative Report

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:

Narrative Report

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 about **1.5m** 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*);
- **Customer, Communities, Culture and Corporate** (*including libraries and community hubs; registration services; coroner services; information governance; heritage, culture and the arts, tourism, community engagement; and community resilience*).
- **Economic Development** (*including enterprise and inward investment; tourism; employability and skills; strategic spatial planning; and minerals and waste planning*).
- **Education and Skills** (*including mainstream schools and education; early years and pre-school; special schools and special educational needs provision; school improvement; raising the participation age; youth services and careers advice; and school crossing patrols*).
- **Environment and Climate Change Action** (*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 the support of and assistance to people with learning or physical disabilities or sensory impairment and older people and the homeless; public health; mental health services; child health related matters; and drug and alcohol action*).
- **Infrastructure** (*including transport strategy; infrastructure commissioning and delivery; maintenance of highways, public rights of way and structures; street lighting; traffic regulation and road safety; parking; cycling; and public rights of way*).
- **Finance, Property and Housing** (*including financial administration and management, comprising preparation and management of the revenue and capital budgets; treasury management; procurement; insurance; commercial investments; traded services; and housing growth, strategy, development*).
- **Performance, Business Planning and Partnerships** *(including project and programme management; business intelligence; and strategic 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.

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 **4th 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 Councillor David Finch. The Leader 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 Councillor 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 **11,862** 'full time equivalent' employees. Of this total, **6,159** are employed within our locally maintained schools. Our non-schools' workforce therefore comprises **5,703** 'full time equivalent' employees as at 31 March 2020.

2018/19	Workforce numbers (full time equivalents)	2019/20
976	Adult Social Care	996
1,273	Children and Families	1,312
1,408	Corporate and Customer Services	1,311
555	Education	529
510	Finance and Technology	494
857	Place and Public Health	923
125	Organisation Development and People	138
5,704	Sub total - non schools	5,703
6,483	Schools	6,159
12,187	Total	11,862

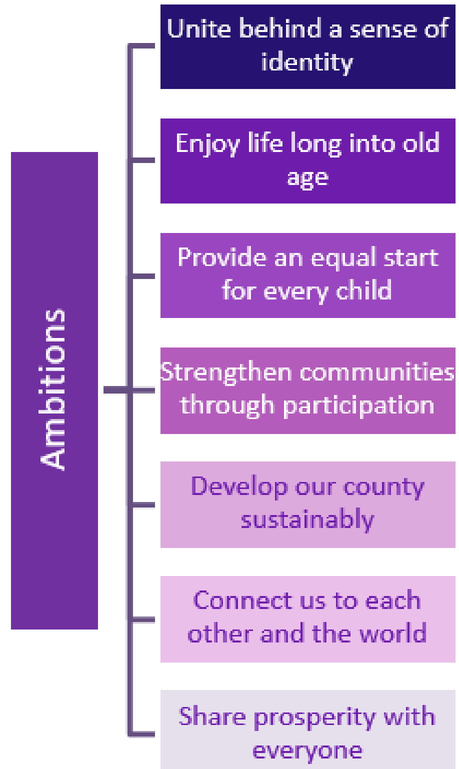
Vision for Essex

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).

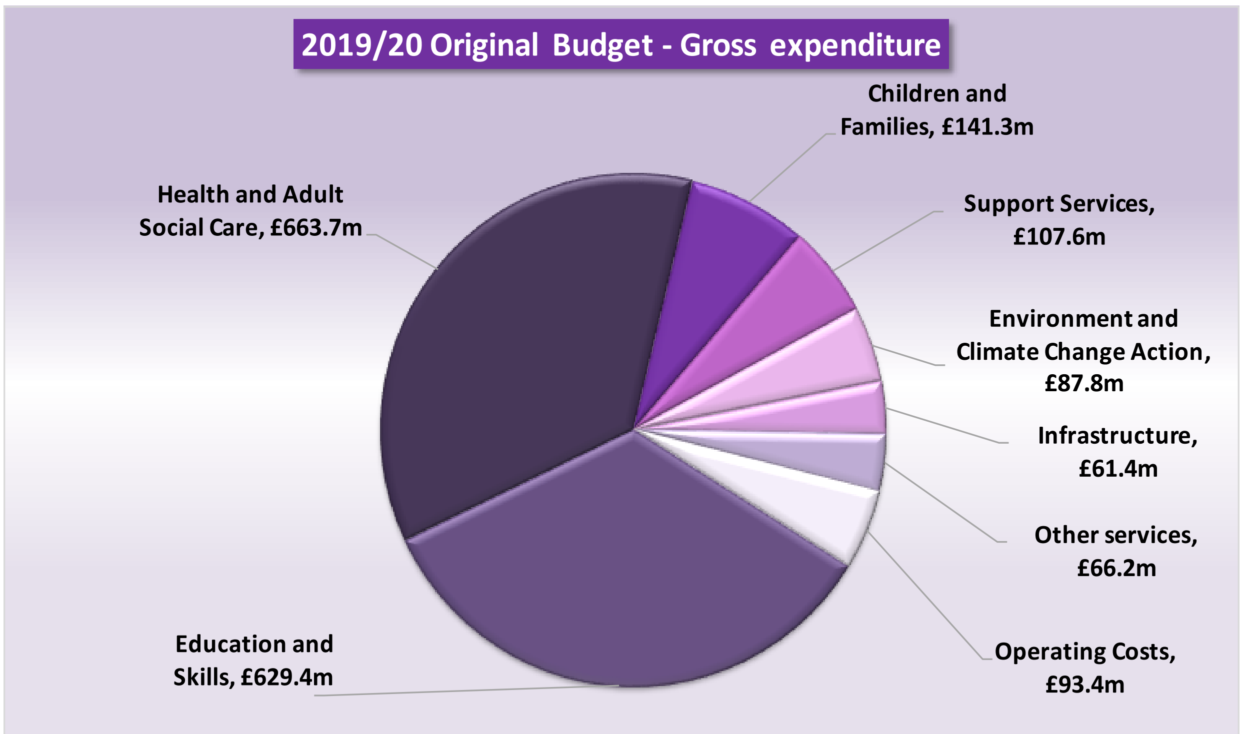
Information on our performance against these priorities is provided in the Essex Annual Report for 2019/20 which is available on the Council's website.

Revenue spending

Revenue spending plans for 2019/20

Our budget for the provision of services in 2019/20 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 **£1,850.8m** (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.

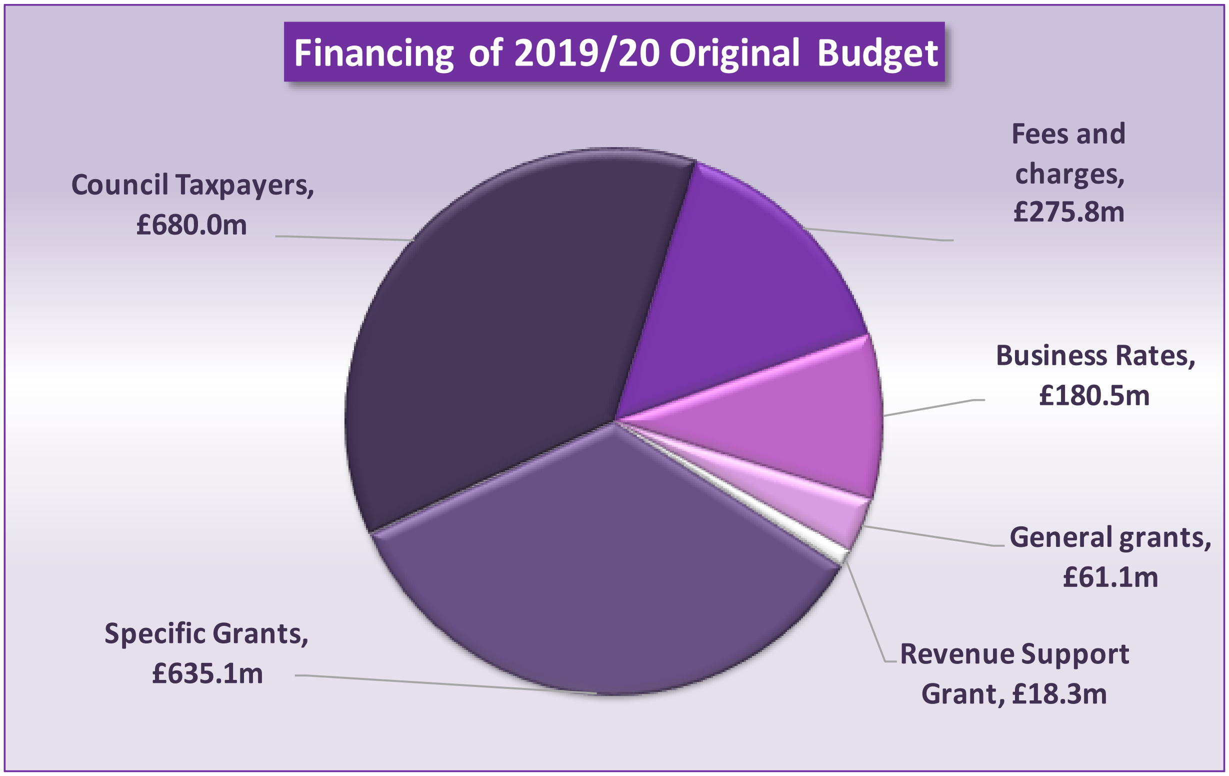


We intended to finance **£972m** of our spending from income from fees and charges (**£275.8m**) and from specific (**£635.1m**) and general (**£61.1m**) government grants.

The net budget, after allowing for specific and general government grants and income from fees and charges, originally amounted to **£878.8m**.

The net budget was financed from:

- Revenue Support Grant (**£18.3m**);
- Business rates (*including business rates 'top up' grant*) (**£180.5m**); and
- Local taxpayers (**£680.0m**).



The Council Tax for a band D property was set at **£1,270.44** (compared with £1,221.75 in 2018/19), which equated to an increase of under **94p** per household per week.

The Council levied the Government's social care precept of **1%** in 2019/20, which must be spent on the provision of adult social care; this is included in the Council Tax figure of **£1,270.44**.

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 **£6.3m** (**0.7%**), of which **£1.8m** arose following an actuarial valuation of the Council's insurance liabilities. This position was delivered against a backdrop of financial pressures on residential and supported living placement costs in Children's Social Care and increasing demand for home to school transport.

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	Over / (under)
	Original	Final Estimate	net expenditure	spend against final estimate
	£000	£000	£000	£000
Children and Families	122,734	120,499	122,909	2,410
Customer, Communities, Culture and Corporate	18,546	16,885	16,571	(314)
Economic Development	6,641	7,025	6,146	(879)
Education and Skills				
Dedicated Schools Budget	(3,063)	(2,932)	451	3,383
Non Dedicated Schools Budget	78,276	80,303	89,140	8,837
Environment and Climate Change Action	80,642	79,553	80,946	1,393
Health and Adult Social Care	407,398	416,906	407,305	(9,601)
Infrastructure	42,818	50,247	48,058	(2,189)
Performance, Business Planning and Partnerships	1,940	2,187	1,740	(447)
Leader	6,152	6,609	5,860	(749)
Finance, Property and Housing	15,226	16,553	16,110	(443)
Recharged strategic support services	81,932	96,890	89,487	(7,403)
Net expenditure by Portfolios	**859,242**	**890,725**	**884,723**	**(6,002)**
Other operating costs				
Emergency Contingency	4,000	-	-	-
Interest, capital financing and dividends	54,001	46,799	43,337	(3,462)
Appropriations to / (from) earmarked reserves and restricted funds:				
Requested appropriations	22,693	37,399	39,041	1,642
Underlying under spend	-	-	6,308	6,308
Total net expenditure	**939,936**	**974,923**	**973,409**	**(1,514)**
General government grants (excl. RSG)	(61,140)	(98,623)	(97,112)	1,511
General Balance - contribution / (withdrawal)	-	(171)	(171)	-
Net Total	**878,796**	**876,129**	**876,126**	**(3)**
Financed by				
Revenue Support Grant (RSG)	(18,300)	(18,300)	(18,300)	-
Business rates (incl. business rates top up grant)	(180,463)	(177,797)	(177,794)	3
Council taxpayers	(680,033)	(680,032)	(680,032)	-
Total Financing	**(878,796)**	**(876,129)**	**(876,126)**	**3**

The net under spend of **£6.3m** reflects:

- A net under spend by services of **£6.0m**. This mainly related to:
  - Adult Social Care, following a review of day care packages and direct payments;
  - Infrastructure, following recovery measures to address a previously forecast overspend; and
  - Other one-off savings, following an actuarial assessment of the Council's self-insurance arrangements.
- A net under spend of **£3.4m** on interest, capital financing and dividends. This arose as a consequence of having higher cash balances throughout the year – that is, we were able to earn

more income from investing these balances and were also able to defer external borrowing for capital financing purposes until the end of the financial year.

- Lower than expected general government grants of **£1.5m**, due to a reduction in PFI funding payments (**£2.6m**), partly offset by additional levy account surplus and other general government grants, and lower than expected business rates income.
- Additional appropriations of **£1.6m** (net) into earmarked revenue reserves, including **£7.6m** into the Carry Forwards reserve, representing unspent budget that will be used to support service expenditure in 2020/21, and **£6.0m** from the PFI reserves, following a decision to terminate the Tendring Public Private Partnership (PPP) contract (see page 81 for further details).

The net under spend of **£6.3m** was appropriated into earmarked revenue reserves, as follows:

- **£2.9m** of the under spend was appropriated into a new COVID-19 Recovery Reserve, to support COVID-19 recovery activity;
- **£2.0m** was appropriated into the Health and Safety Reserve;
- **£900,000** was appropriated into a new Social Distancing and Hygiene reserve to support new burdens on the Council to manage social distancing requirements; and
- **£500,000** was appropriated into a new Bursary reserve to fund bursaries for trainee carers.

Although the Coronavirus outbreak happened during 2019/20, it did not materially impact upon the Council's financial performance for 2019/20, because the outbreak happened close to year end. The impact has been felt more acutely from April 2020. Further details are provided on page 13.

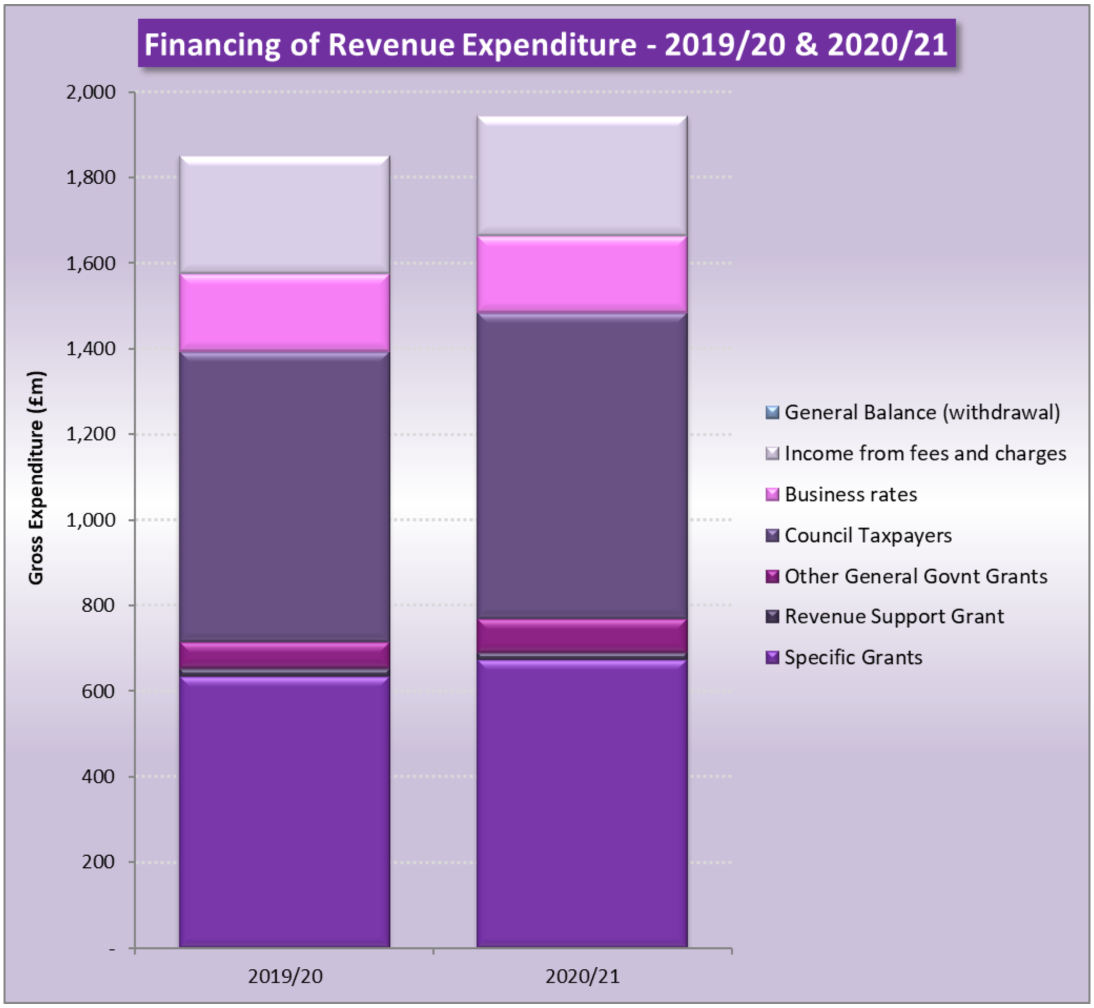
Revenue spending plans for 2020/21 and beyond

The 2020/21 budget was approved by the Council in February 2020 and was 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 gross budget amounted to **£1,943.9m**. After taking income and specific grants into account, total net expenditure amounted to **£992.7m**, which is **£52.8m** or **6%** more than in 2019/20.

The Council implemented a **1.99%** increase in core council tax in 2020/21 (in addition to a **2%** social care precept).

The Council Tax for a band D property is **£1,321.11** (compared with **£1,270.44** in 2019/20); this is an increase of **97p** per household per week.



When we set the budget for 2020/21, we were forecasting a budget gap of **£14m** in 2021/22, rising to **£71m** in 2023/24. The most significant driver of these gaps was **inflation**, which accounted for **£78m**, followed by **demographic growth** of **£17m**, then **new burdens** and **other** cost pressures of **£10m**, partly offset by one off investments of **£34m**. Regarding funding, our medium-term strategy assumed the continuation of Revenue Support Grant at the 2020/21 level of **£19m**, and the continuation of the new social care grants. However, the funding position beyond 2020/21 was not clear.

Some progress had been made towards balancing the budget over the medium term. Savings of **£20m** in 2021/22 and a further **£14m** in both 2022/23 and 2023/24 had been identified and were included in the forecast budget gaps. We do not yet have the clarity as to the funding support available from Government and cannot yet know what the impact of employment will be for our tax revenues. Until we receive this clarity, we cannot predict with certainty what the gap will be for future years.

Work will continue during 2020/21 to identify proposals to close the funding gap beyond the next year. Whilst we were fully cognisant of the challenges faced, including the funding uncertainty, the outlook has recently become even more challenging, following the outbreak of the coronavirus. We are nevertheless determined to continue to transform how we operate to tackle this enormous task and we are committed to delivery of savings and generating the income required to reach a balanced budget position, but also to deliver better services for residents.

Further details of the Council's revenue investment plans are included in the Essex County Council Organisation Plan 2020/21, which is available on the Council's website.

COVID-19 pandemic

The COVID outbreak spread to the UK in late January 2020. On 11 March, the outbreak was declared a pandemic. On 20 March, the government shut all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March, the government imposed a lockdown on the whole population, banning all non-essential travel and contact with people outside one's home, and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to socially distance when in public. The Council had to respond quickly.

The government started to ease lock down measures in May 2020, with subsequent lifting of restrictions as we progressed into the summer. However, the Council sought to be placed in the 'high level' banding of COVID restrictions in October 2020, when it was evident that infection rates were rising. The government confirmed that Essex would move to the 'high' level from 17 October 2020. This had the effect of reinstating some of the earlier restrictions, particularly the restriction on different households meeting in doors. However, with effect from 5 November, the government implemented new national restrictions until 2 December 2020, to reduce the spread of the infection, including requiring people to stay at home, except for specific purposes. It is currently unclear whether further restrictions will be necessary over the winter months.

Throughout the pandemic, the frail and elderly have been the most vulnerable, meaning that the health and care sectors have been significantly impacted. However, other Council services have been impacted too, including facilities such as libraries, country parks and recycling centres. To date, the Council's services have continued to be managed and delivered well, despite the complexities that the pandemic has created.

The Council undertook significant work across the County to:

- Ensure the safety and wellbeing of people in Essex and our most vulnerable residents.
- Support providers suffering financial hardship as a result of COVID-19.
- Support providers within the social care market to remain sustainable, at a time when they may be under significant pressure, in order to ensure that care staff can continue to work.
- Maintain statutory duties.

To date, the costs of the decisions taken by the Council for responding to the pandemic have been estimated at **£61m** for activities with no specific funding. Most of these decisions relate to social care provision, but also include compensation for losses of income and the management of additional body storage facilities.

There are also future cost pressures (*including anticipated non-delivery of savings where the capacity to deliver the savings has been redirected to focus on the pandemic*) and losses of income (*notably from closed or reduced services*). The risk of non-delivery of savings is heightened in Adult Social Care, which has ambitious savings programmes that will need to be reappraised considering the pandemic response. These pressures amount to **£37m** and bring the total cost of the Council's response to the pandemic to **£98m** so far.

The Council has received emergency funding from the Government of **£85m** (**£37m** of which was received in 2019/20) and it is anticipating **£12m** via the Clinical Commissioning Groups. This will take funding to **£97m**, leaving a committed shortfall of **£1m**.

In addition, there remain some significant financial risks that require focus in the short and medium term to safeguard the Council's financial sustainability, notably the impact of the cessation of the Coronavirus Job Retention Scheme on unemployment, and ongoing uncertainty around a second COVID-19 wave and the possibility of further restrictions, and the likelihood of an increased demand for services.

The Government has yet to clarify its funding approach beyond their emergency funding, so it is difficult to forecast with accuracy what the real underlying position is. The position, risks and opportunities are being continually and closely monitored.

Capital investment

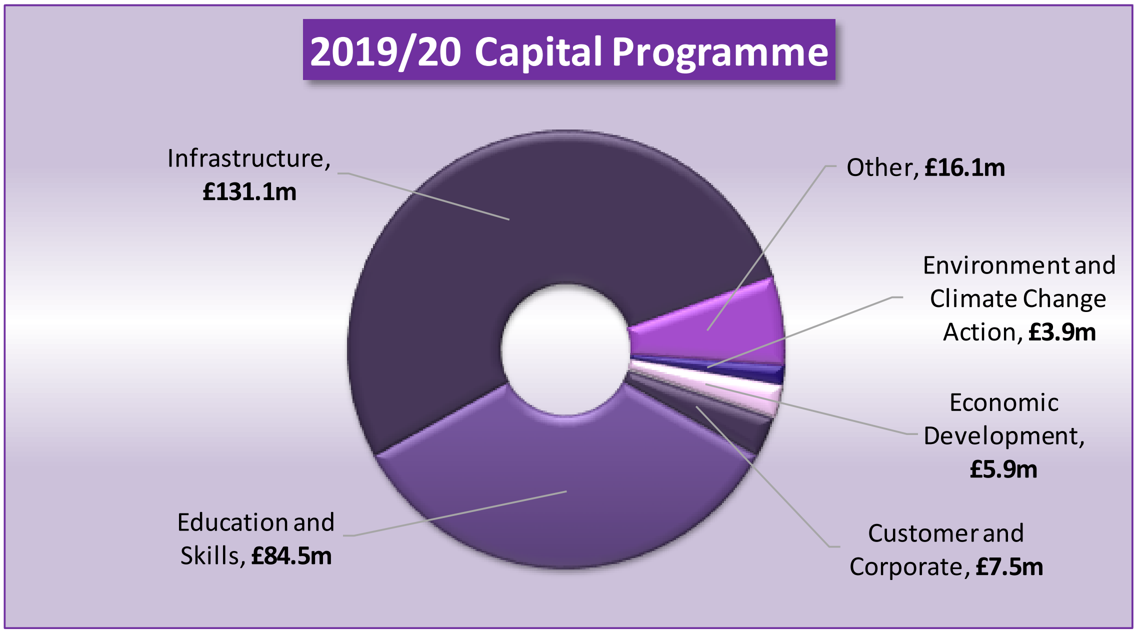
Background to the 2019/20 Capital Programme

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 2019/20 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.

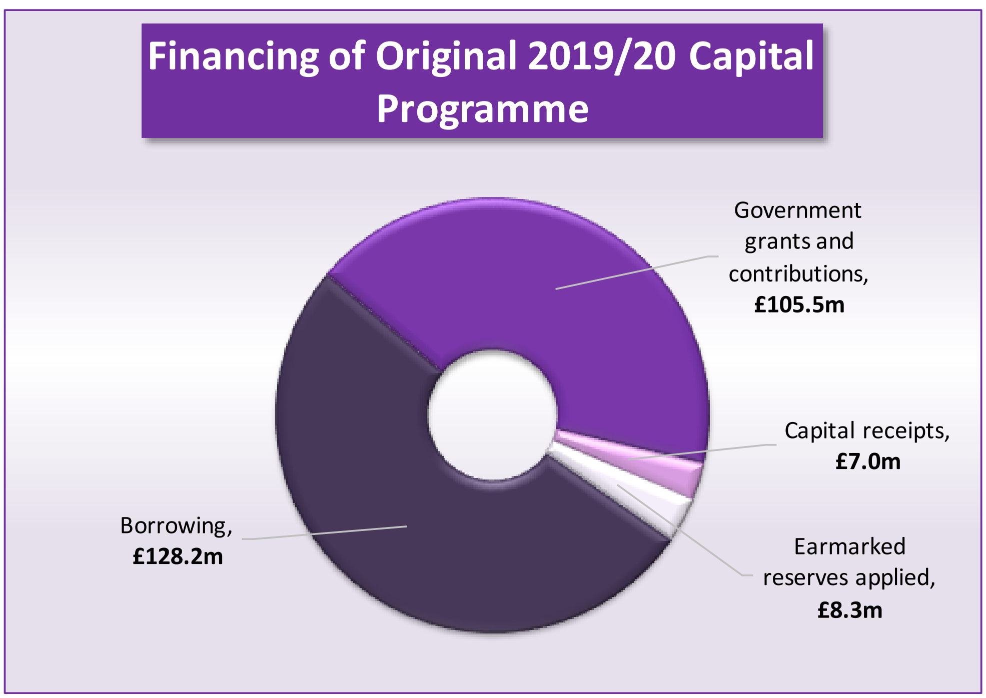
Overall, the Capital Programme for 2019/20 was originally set at **£249m** and comprised a diverse portfolio of activity, with elements that generate income and growth, drive savings and ensure the quality of infrastructure, for the benefit of Essex residents:

- **Invest to Grow** (**£144m**) – 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 and enhancing skills in key growth areas;
- **Invest to maintain** (**£83m**) – projects intended to maintain but extend the life of our assets, including highways maintenance schemes countywide; and
- **Invest to save / generate return** (**£22m**) – 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.

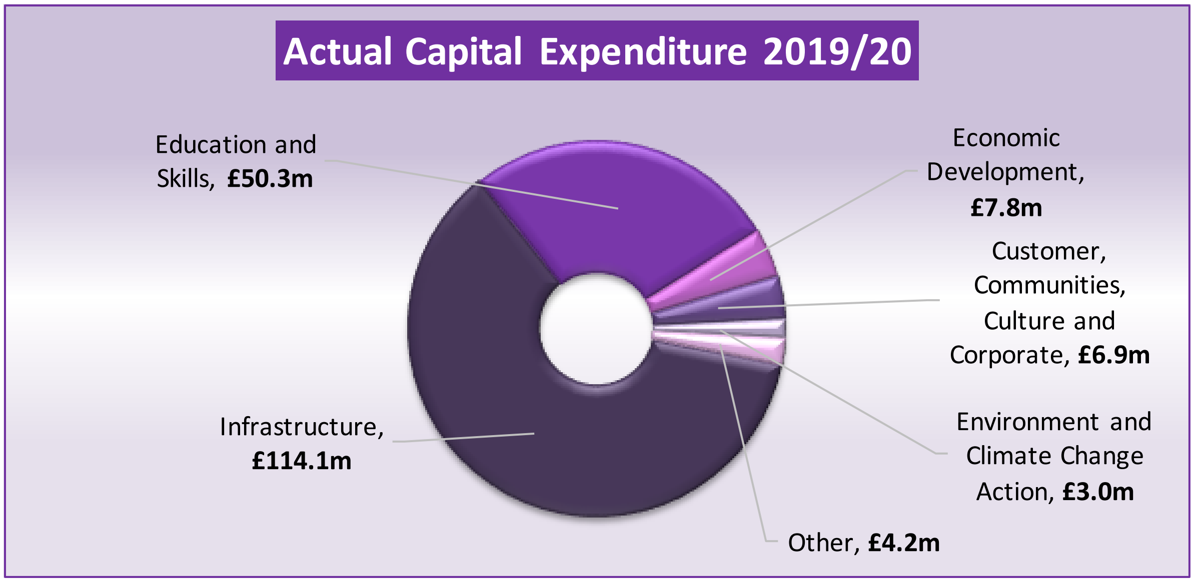


It was intended to finance the 2019/20 Capital Programme from a combination of borrowing (**£128.2m**) and from grants, contributions, capital receipts and reserves (**£120.8m**).



2019/20 Outturn position

The final approved capital payments budget amounted to **£210m**. In comparison, actual expenditure amounted to **£186.3m**. This was **£23.7m** (7%) lower than budgeted.



During 2019/20, around **400** schemes were undertaken, including:

- Creating **3,500** new school places through school expansions, including two new secondary schools (Beaulieu Park School and the Paxman Academy which created **1,200** and **900** school places respectively).
- Construction of the Moulsham Lodge housing development, comprising of **26** residential units, of which **8** will enable adults with disabilities to live independently.
- A flood programme, which has contributed towards projects that have enabled **196** residential properties to benefit from reduced surface water flood risk.
- Broadband extension programmes, which have seen **138,099** premises being upgraded to superfast speeds using public funds.

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

	Original approved expenditure £000	Final approved expenditure £000	Actual Capital Payments £000	Variance from approved expenditure over / (under) £000
Capital payments				
Children and Families	900	571	400	(171)
Customer, Communities, Culture and Corporate	7,500	8,053	6,854	(1,199)
Economic Development	5,847	9,506	7,822	(1,684)
Education and Skills	84,538	63,805	50,334	(13,471)
Environment and Climate Change Action	3,850	4,101	3,000	(1,101)
Finance, Property and Housing	14,765	3,869	3,137	(732)
Health and Adult Social Care	421	664	654	(10)
Infrastructure	131,146	119,483	114,105	(5,378)
Total of capital payments financed	**248,967**	**210,052**	**186,306**	**(23,746)**
Financed by				
Borrowing	(128,237)	(88,278)	(56,393)	31,885
Government grants and contributions	(105,462)	(103,852)	(111,978)	(8,126)
Capital receipts	(7,000)	(13,217)	(17,935)	(4,718)
Earmarked reserves applied	(8,268)	(4,705)	-	4,705
Total financing	**(248,967)**	**(210,052)**	**(186,306)**	**23,746**

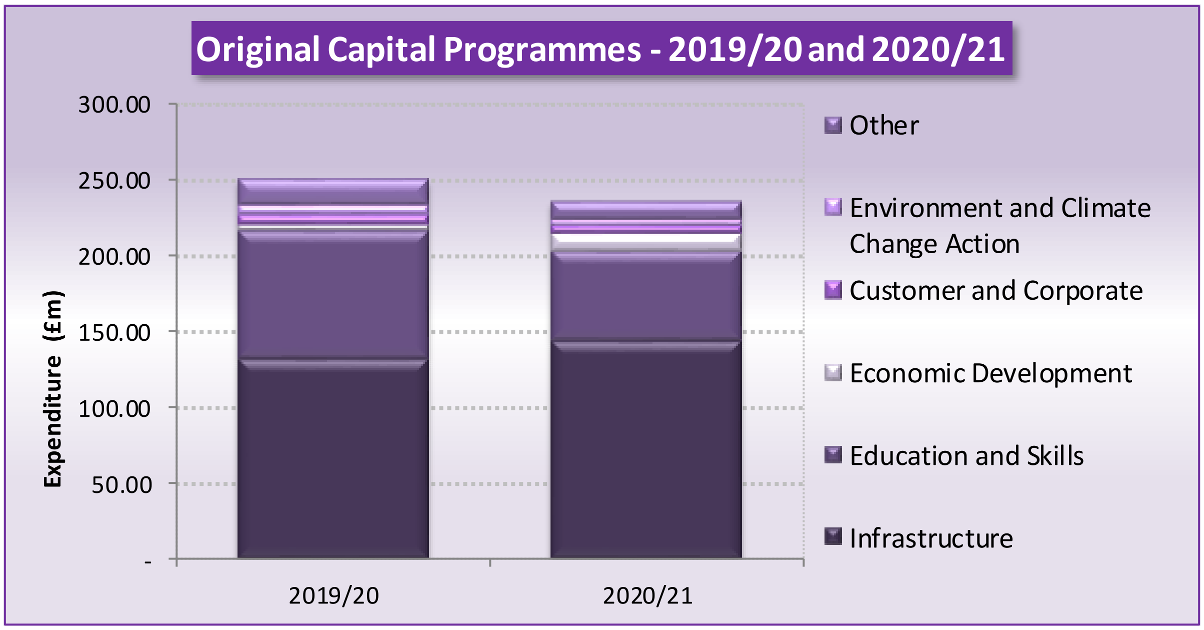
During 2019/20, we disposed of some of our land and buildings – the sale proceeds will be used to partly fund our capital investment programme. The most significant asset disposals during 2019/20 were as follows:

Significant disposals	Capital receipts (£m)
▪ EES for Schools	**16.0**
▪ Golday Gardens (Chelmsford)	**3.2**
▪ Rainsford Lodge Car Park (Chelmsford)	**3.1**
▪ New Bridge House (Chelmsford)	**2.5**
▪ Moulsham Lodge (Chelmsford)	**1.6**
▪ Broadfields Farm Cottage and Forest Visitor Centre (Upminster)	**0.7**
▪ Northlands Farm, Landon Hills (Basildon)	**0.4**
▪ Belstead Farm Lane (Chelmsford)	**0.4**
▪ Unit 5 Wild Close, Stephenson Road West (Tendring)	**0.3**

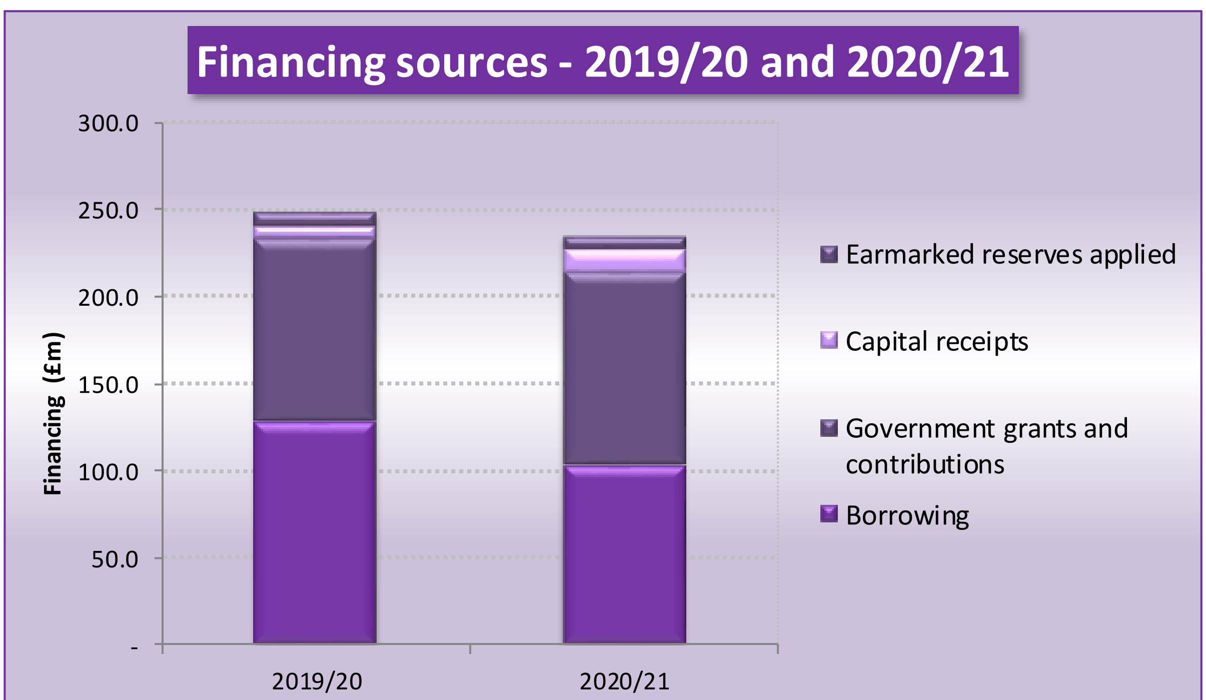
At 31 March 2020, we have **£2.4m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£52.3m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

Capital investment plans for 2020/21

Overall, the Capital Programme for 2020/21 has been set at **£234.8m**, which only marginally lower than the programme original set for 2019/20. Our longer-term capital programme aspirations remain significant too, as we recognise that investment is essential to meet future needs, generate additional income and deliver revenue savings and cost reductions.



The 2020/21 Capital Programme will be financed from a combination of borrowing (**£102.6m**) and from grants, contributions, capital receipts and reserves (**£132.2m**).



We will continue to develop a future programme of investments which is affordable, within the financial envelope available and will help transform service delivery to improve the quality of life for residents. Our overall aim is to have a diverse portfolio of activity, ensuring the creation of new assets, whilst maintaining the quality of existing infrastructure, for the benefit of our residents and businesses.

Continued investment is vital to achieving the ambitions for the county which are aligned to the districts' local plans, from schemes to generate economic growth to reducing congestion. A notable achievement this year was securing Housing Infrastructure Funding to support this ambition, which will enable us to progress schemes such as Beaulieu Station and Chelmsford North East bypass.

We will also continue with a significant package of improvement works such as the M11 Junction 7A, M11 Junction 8 and A127 Junction at Fairglen Interchange and packages of transport improvements in Chelmsford.

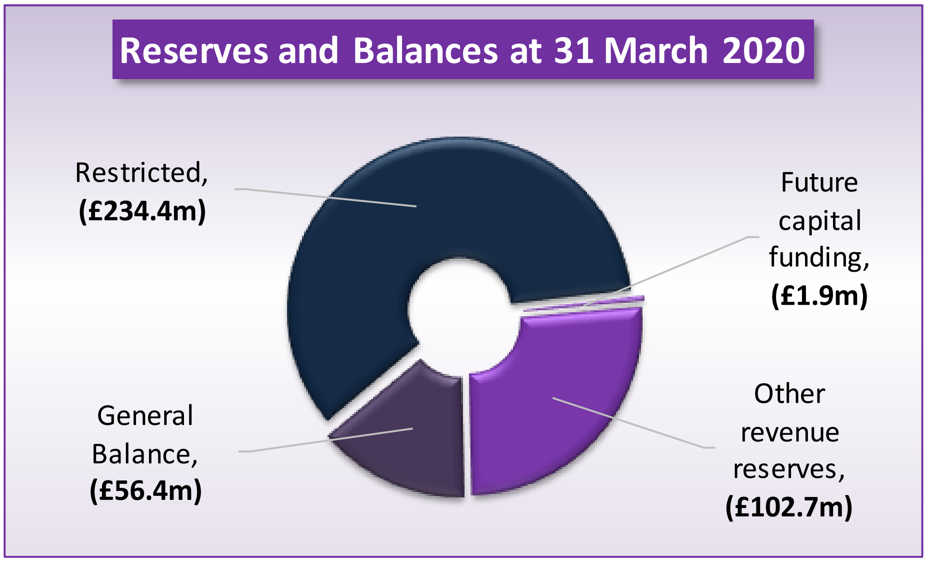
The Council's collaboration with Essex Schools has seen an increase in special school places. This represents a step change in provision and will help to reduce the distances children with special educational needs and disabilities need to travel, keeping them closer to their families and reducing associated costs. This programme continues, with a further **£54m** being spent over the next four years. On top of this, we are spending **£168m** on mainstream education over the next four years too.

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

Further details of the Council's capital investment plans are included in the Essex County Council Organisation Plan 2020/21, 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 (**£234.4m**). 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 **£102.7m** 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 **£1.9m** has been earmarked for funding future capital investment.

The remainder (**£56.4m**) 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 **21** 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 65).

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 2019/20, 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 the Public Works Loan Board (**£105m**) and Salix Finance Ltd (**£0.6m**) as part of its energy efficiency loans programme (related to upgrade to LED street lighting).

Any cash balances the Council held during 2019/20 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 84).

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 Code of Practice on Local Authority Accounting in the United Kingdom (i.e. the 'Code of Practice'). The Statement of Accounts for 2019/20 is presented within this publication, commencing on page 24.

The key aim of the Statement of Accounts is to provide a 'true and fair' view of the Council's financial position at 31 March 2020 and of its income and expenditure for the 2019/20 financial year. The Statement of Accounts is therefore an essential feature of public accountability, reporting on the Council's use of funds raised from the public and provided by central government and confirming the availability of balances and reserves for future use.

The primary Financial Statements (shown on pages 30 to 35) summarise the financial effects of transactions and events that occurred during 2019/20. 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 2019/20.

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 31 March 2020 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 2019/20.

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 5 of the Statement of Accounts, on page 57) provides a reconciliation between the accounting cost of service provision and the amounts spent under the Council's rules for monitoring expenditure against the funding in the annual budget. The reasons for the differences between the two sets of figures are also explained in Note 5.

Accounting policies (see pages 38 to 51) 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 51) of the judgements made in 2019/20.

Other notes to the accounts (see pages 54 to 128) provide further information on the Council's financial performance and, where relevant, detailed analysis of the amounts provided in the primary financial statements. Information relating to transactions and events is included in these notes if it is material to the Council's financial statements. Information is considered material if omitting it or misstating it could influence decisions made 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 201 of this publication) summarises the outcome of our review of the Governance Framework that has been in place during 2019/20. 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 2019/20 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2020/21 and beyond. Whilst a balanced budget has been set for 2020/21, the projections for future years currently indicate a gap between the Council's expected funding streams and the Council's expenditure. In addition, the Council faces significant cost pressures in relation to its response to the COVID-19 pandemic, and in relation to future cost pressures and losses of income. 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.

Nicole Wood
Executive Director, Finance and Technology
30 November 2020

Statement of Accounts 2019/20

Statement of Accounts

Statement of Accounts - Introduction

Financial Statements

The Council's financial statements for 2019/20 are set out on pages 30 to 35, and comprise:

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

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

Notes to the Accounts

Supplementary information is set out within the notes to the accounts (see pages 36 to 128) to provide further detail on the financial performance of the Council during 2019/20.

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 2019/20 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in **Note 1** to the Accounts, which commences on page 38.

The notes to the accounts also include an **Expenditure and Funding Analysis** (*see Note 5, commencing on page 57*). 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

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

Pension Fund

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

The Essex Pension Fund accounts comprise:

- **Fund Account**

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

- **Net Assets Statement**

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

The Pension Fund accounts are set out on pages 144 to 194.

Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 195 to 200.

Statement of Accounts - Statement of Responsibilities

Council's responsibilities

The Council is required to:

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

The Executive Director, Finance and Technology 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, Finance and Technology 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, Finance and Technology has also:

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

Executive Director, Finance and Technology's certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of the Council at 31 March 2020 and its expenditure and income for the year then ended.

Nicole Wood
Executive Director, Finance and Technology
30 November 2020

Statement of Accounts - Statement of Responsibilities

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 **30th November 2020**.

Cllr Anthony Hedley
Chairman of the Audit, Governance and Standards Committee
30 November 2020

Statement of Accounts - Financial Statements

Introduction

The financial statements comprise:

- **Comprehensive Income and Expenditure Statement**

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

- **Movement in Reserves Statement**

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

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

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

- **Balance Sheet**

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

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

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

- **Cash Flow Statement**

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

- **Notes to the financial statements**

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

  The Expenditure and Funding Analysis, which is presented in Note 5 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 2020

2018/19 Gross expenditure £000	2018/19 Government grants £000	2018/19 Other income £000	2018/19 Net Expenditure £000	Note		2019/20 Gross expenditure £000	2019/20 Government grants £000	2019/20 Other income £000	2019/20 Net expenditure £000
142,942	(13,301)	(8,054)	121,587		Children and Families	154,969	(16,381)	(7,741)	130,847
31,259	(84)	(9,317)	21,858		Customer, Communities, Culture and Corporate	31,317	(182)	(9,498)	21,637
14,774	(2,208)	(876)	11,690		Economic Development	17,153	(1,940)	(1,010)	14,203
					Education and Skills				
553,013	(517,133)	(40,311)	(4,431)		Dedicated Schools Budget	547,362	(508,393)	(37,104)	1,865
216,178	(54,630)	(44,839)	116,709		Non Dedicated Schools Budget	271,473	(26,604)	(43,121)	201,748
99,740	(2,288)	(5,470)	91,982		Environment and Climate Change Action	91,700	(1,824)	(5,858)	84,018
21,308	(482)	(5,152)	15,674		Finance, Property and Housing	21,541	(425)	(4,348)	16,768
656,109	(105,732)	(143,355)	407,022		Health and Adult Social Care	668,330	(107,587)	(145,160)	415,583
98,961	(12,718)	(17,079)	69,164		Infrastructure	95,460	(4,895)	(17,420)	73,145
10,472	(1,417)	135	9,190		Leader	951	(43)	143	1,051
1,377	-	(81)	1,296		Performance, Business Planning and Partnerships	1,942	-	(128)	1,814
					Recharged Strategic Support Services				
74,406	-	-	74,406		Customer, Communities, Culture and Corporate	74,928	-	-	74,928
20,020	-	-	20,020		Finance, Property and Housing	19,270	-	-	19,270
2,222	-	-	2,222		Leader	2,384	-	-	2,384
8,516	-	-	8,516		Performance, Business Planning and Partnerships	8,836	-	-	8,836
1,951,297	**(709,993)**	**(274,399)**	**966,905**		**Cost of services - continuing operations**	**2,007,616**	**(668,274)**	**(271,245)**	**1,068,097**
218,596	-	-	218,596	9	Other Operating Expenditure	49,504	-	-	49,504
128,530	-	(60,282)	68,248	10	Financing and Investment Income and Expenditure	123,790	-	(59,042)	64,748
-	(303,737)	(685,461)	(989,198)	12	Taxation and Non-Specific Grant Income	-	(329,416)	(721,420)	(1,050,836)
2,298,423	**(1,013,730)**	**(1,020,142)**	**264,551**		**Deficit on Provision of Services**	**2,180,910**	**(997,690)**	**(1,051,707)**	**131,513**
			(91,993)	27.2	Surplus arising on revaluation of non-current assets				(83,918)
			(157,016)	27.6	Re-measurements of the net defined benefits pension liability				(160,849)
			(249,009)		**Other Comprehensive Income and Expenditure**				**(244,767)**
			15,542		**Total Comprehensive Income and Expenditure**				**(113,254)**

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 2019/20; comparative figures for 2018/19 have been restated on a consistent basis.

Movement in Reserves Statement

For the years ended 31st March 2019 and 31st March 2020

	Notes	Usable Reserves Earmarked General Reserves £000	General Fund Balance £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2018		(284,997)	(55,212)	-	(2,557)	(342,766)	(850,499)	(1,193,265)
Restatement of opening balances								
Adjustment for credit loss allowances		-	2,812	-	-	2,812	-	2,812
Adjustment for modified loans		-	(1,238)	-	-	(1,238)	-	(1,238)
Adjusted Balance at 1 April 2018		(284,997)	(53,638)	-	(2,557)	(341,192)	(850,499)	(1,191,691)
Movement in Reserves during 2018/19								
Total Comprehensive Income and Expenditure		-	264,551	-	-	264,551	(249,009)	15,542
Adjustments between accounting basis and funding under regulations	7	-	(277,404)	-	(1,663)	(279,067)	279,067	-
Net (increase)/decrease before transfers to earmarked reserves		-	(12,853)	-	(1,663)	(14,516)	30,058	15,542
Transfers to Earmarked Reserves	8	(9,881)	9,881	-	-	-	-	-
(Increase) / decrease in 2018/19		(9,881)	(2,972)	-	(1,663)	(14,516)	30,058	15,542
Balance at 31 March 2019		(294,878)	(56,610)	-	(4,220)	(355,708)	(820,441)	(1,176,149)
Movement in Reserves during 2019/20								
Total Comprehensive Income and Expenditure		-	131,513	-	-	131,513	(244,767)	(113,254)
Adjustments between accounting basis and funding under regulations	7	-	(175,481)	(9,581)	2,962	(182,100)	182,100	-
Net (increase)/decrease before transfers to earmarked reserves		-	(43,968)	(9,581)	2,962	(50,587)	(62,667)	(113,254)
Transfers to Earmarked Reserves	8	(44,139)	44,139	-	-	-	-	-
(Increase) / decrease in 2019/20		(44,139)	171	(9,581)	2,962	(50,587)	(62,667)	(113,254)
Balance at 31 March 2020		(339,017)	(56,439)	(9,581)	(1,258)	(406,295)	(883,108)	(1,289,403)

Balance Sheet as at 31st March 2020

1 April 2018 Restated £000	31 March 2019 Restated £000	Note		31 March 2020 £000
			Property, Plant and Equipment	
			Operational assets	
1,571,218	1,407,668		Land and buildings	1,398,104
16,197	11,030		Vehicles, plant and equipment	9,644
1,075,953	1,141,369		Infrastructure	1,180,934
3,117	3,130		Community assets	3,275
			Non operational assets	
135,115	168,935		Assets under construction	137,519
45,003	55,124		Surplus assets held pending disposal	52,338
2,846,603	**2,787,256**	15	**Total Property, Plant and Equipment**	**2,781,814**
14,501	14,572	15	Heritage assets	14,667
39,920	38,337	15	Investment property	39,181
9,396	7,329	15	Intangible assets	8,582
12,746	13,115	19	Long term investments	12,705
17,971	17,389	21	Long term debtors	15,942
2,941,137	**2,877,998**		**Long term assets**	**2,872,891**
211,561	90,209	19	Short term investments	115,191
3,795	6,124	15	Assets held for sale	2,413
7,165	9,896	20	Inventories	9,269
166,256	146,091	21	Short term debtors	129,249
74,460	209,820	22	Cash and cash equivalents	326,354
463,237	**462,140**		**Current Assets**	**582,476**
(33,893)	(52,242)	22	Bank overdraft	(17,718)
(7,382)	(8,572)	19	Short-term borrowing	(25,548)
(298,240)	(310,937)	23	Creditors	(324,397)
(12,649)	(11,547)	25	Provisions (current)	(13,096)
(13,507)	(14,270)	24	Revenue grant receipts in advance (current)	(31,694)
(54,528)	(75,075)	24	Capital grant receipts in advance (current)	(69,181)
(8,028)	(7,951)	17	Finance Lease obligations (current)	(7,629)
(428,227)	**(480,594)**		**Current liabilities**	**(489,263)**
(124)	(1,113)	23	Creditors (non-current)	(1,215)
-	-	24	Revenue grant receipts in advance (non current)	(1,956)
-	-	24	Capital grant receipts in advance (non current)	(25,922)
(30,240)	(35,365)	25	Provisions (non-current)	(33,755)
(514,914)	(511,798)	19	Long term borrowing	(598,941)
			Other long term liabilities	
(138,945)	(130,957)	17	Finance lease obligations	(115,580)
(12,982)	(12,285)		Deferred credits	(11,231)
(1,085,677)	(991,877)	32	Net Pensions Liability	(888,101)
(1,782,882)	**(1,683,395)**		**Long term liabilities**	**(1,676,701)**
1,193,265	**1,176,149**		**Net Assets**	**1,289,403**

Note: The opening and closing comparative figures for the prior year have been restated on a basis consistent with 2019/20. The restatement of comparative figures was necessary because the pooled position on the Council's bank accounts was previously offset against cash and cash equivalents but it should have been shown as a bank overdraft within current liabilities instead (see Note 22 on page 93 for further details).

Balance Sheet as at 31st March 2020

1 April 2018 Restated £000	31 March 2019 Restated £000			31 March 2020 £000
			Usable reserves	
(284,997)	(294,878)	8	Earmarked reserves	(339,017)
(55,212)	(56,610)		General Fund Balance	(56,439)
-	-		Usable capital receipts reserve	(9,581)
(2,557)	(4,220)		Capital grants unapplied	(1,258)
(342,766)	**(355,708)**			**(406,295)**
		27	**Unusable reserves**	
(616,624)	(601,983)		Revaluation reserve	(634,629)
(1,316,405)	(1,208,599)		Capital Adjustments Account	(1,150,386)
3,061	3,003		Financial Instruments Adjustment Account	12,452
(861)	-		Available for Sale Financial Instruments Reserve	-
-	(1,030)		Pooled Investment Funds Adjustment Account	(636)
1,085,677	991,877		Pension reserve	888,101
(2,535)	(2,519)		Deferred capital receipts	(334)
(15,696)	(11,723)		Collection Fund Adjustment Account	(9,085)
12,884	10,533		Accumulated Absences Account	11,409
(850,499)	**(820,441)**			**(883,108)**
(1,193,265)	**(1,176,149)**		**Total Reserves**	**(1,289,403)**

These statements replace the unaudited draft financial statements I certified on 30th June 2020:

Nicole Wood - Executive Director, Finance and Technology - 30 November 2020

Cash Flow Statement

For year ended 31st March 2020

2018/19 *Restated* £000	Notes		2019/20 £000
6,151	28	Operating activities	**(27,227)**
(131,705)		Investing activities	**(17,316)**
8,541		Financing activities	**(106,515)**
(117,013)		**Net increase in cash and cash equivalents**	**(151,058)**
40,567		**Cash and cash equivalents at 1st April**	**157,578**
(2)		Adjustment for credit loss allowances (cash and cash equivalents)	**-**
40,565		**Restated cash and cash equivalents at 1st April**	**157,578**
157,578		**Cash and cash equivalents at 31st March**	**308,636**

Note:

The comparative figures for 2018/19 have been restated on a basis consistent with 2019/20. The restatement was necessary because cash flows arising from revenue expenditure funded from capital under statute were previously classified as Investing activity cash flows, but they should have been classified as Operating activity cash flows (see note 28 on page 102 for further details).

Statement of Accounts - Notes to the Financial Statements

Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 30 to 35) and provide further information on the financial performance of the Council during 2019/20. The notes set out within this section are as follows:

1. Accounting policies

1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year, and its position as at 31 March 2020. 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 2019/20 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 2019/20, 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.

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 received, for which conditions have yet to be satisfied, are carried in the Balance Sheet as grant receipts in advance.

When the conditions have been satisfied, the grants and contributions are credited to the Comprehensive Income and Expenditure Statement (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 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, 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.

An accrual is made for the cost of holiday entitlement earned by employees but not taken before the year end that employees can carry forward into the next financial year. This accrual is raised against services in the Surplus or Deficit on the Provision of Services and then reversed out through the Movement in Reserves Statement to the Accumulated Absences Adjustment 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.

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 Teachers' Pensions on behalf of the Department for Education;
- 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.

- 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

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. Other overhead costs 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 2019/20 (SeRCOP).

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 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.

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. Expenditure on furniture and fittings is not capitalised.

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.

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 (*existing use value or depreciated replacement cost*).
Vehicles and equipment	Depreciated historical cost (*as a proxy for current value*).
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.

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 not subject to formal valuation during the year of account are adjusted to current value at the year-end using indices provided by the Council's retained valuer.

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	Buildings are depreciated, on a straight line basis, over the useful economic life (UEL) of each asset (as assessed by the Council's Valuer). Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately:	
	▪ Structure	**80** years
	▪ Roof	**25** to **80** years
	▪ Plant and machinery	**30** to **40** years
	▪ External works	**30** years
Community assets	Depreciated over **60** years, on a straight-line basis.	
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between **2** and **30** years.	
Roads and other infrastructure	Depreciation is provided on a straight-line basis over the following periods:	
	▪ Road signage	**30** years
	▪ Roads and highway lighting	**40** years
	▪ Structures (eg: Bridges)	**120** years

Asset category	Depreciation basis	
	▪ Off-highways drainage	**100** years
	▪ Other infrastructure	**15** to **20** years
	▪ Additions prior to 2008/09	**30** to **35** years
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.	

Depreciation charges commence in the first full year after assets become operational, 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. 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 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 or, 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.

1.14 Charges to revenue for non-current assets

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

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

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

1.15 Revenue expenditure funded from capital under statute

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

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

1.16 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
Services received *Services that the operator must provide with the Property, Plant and Equipment.*	Charged to the relevant service in the Comprehensive Income and Expenditure Statement.
Deferred income *Benefits that the Council is deemed to receive through its control of the services to be provided using the Property, Plant and Equipment.*	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.
Finance cost *Interest charge on the outstanding Balance Sheet liability.*	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Contingent rent *Increases in the amount to be paid for the property arising during the contract.*	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Payment towards liability *Obligation to pay the operator for the Property, Plant and Equipment.*	Applied to write down the Balance Sheet liability towards the PFI operator.
Lifecycle replacement *The replacement of components of an asset as they wear out.*	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

1.17 Leases

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

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

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

Property, plant and equipment held by the Council under finance leases is recognised on the Balance Sheet at the commencement of the lease at its 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.

1.18 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, although it is separately disclosed as a current liability within the Balance Sheet.

1.19 Financial instruments

1.19.1 Financial liabilities

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

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

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

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

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

1.19.2 Financial Assets

Financial assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument.

Financial assets held at amortised cost 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.

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.

1.20 Fair value measurement

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

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

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

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

1.21 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.

1.22 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.

The critical judgements made in applying the accounting policies for 2019/20 are as follows:

- **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 (see note 15.3 on page 76 for further details). 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, the Council only consolidates the income, expenditure, assets, liabilities, reserves and cash flows that would be recognised by a 'school as an entity' into its financial statements.

  The Council has determined that it should not recognise the land and buildings provided by religious bodies for use by voluntary controlled, voluntary aided and certain foundation schools into the Council's financial statements, even though the land and buildings may continue to be used by these schools for many years into the future. The Council has made this judgement on the basis that it does not have the right to continuing use the land and buildings because that they can be taken back by the owners at any point. At 31 March 2020, land and buildings for **43** voluntary-controlled (2018/19: 47), **48** voluntary-aided (2018/19: 51) and **4** foundation schools (2018/19: 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 82 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 2019/20.

- ### 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. The Council has also made a judgement that it has a contingent asset in regard to the High Court ruling in relation to the Waste Treatment Plant in Basildon (*see page 96 for further details*).

The judgements are based on the degree of certainty around the results of pending cases.

- ### 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) has a range of members who collectively decide what the priorities should be for investing in roads, buildings and facilities in Essex, East Sussex, Kent, Medway, Southend and Thurrock, 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 31 March 2020, this creditor amounted to **£96.622m** (2018/19: £70.479m).

- **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.

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

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

Further details of these pooled budgets are provided in Note 35, which commences on page 115.

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 **31 March 2020** 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 and Investment Property	Operational land and buildings and properties categorised as investment properties are valued by a RICS registered valuer sufficiently frequently to ensure that their carrying amount is not materially different from their current / fair value at the year-end. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, impacted global financial markets. As a result of the lockdown measures put into place in in late March 2020, market activity was impacted in many sectors of the UK property market. Accordingly, for any valuation dates at or around the end of the subject year, valuers were able to attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that valuers were faced with an unprecedented set of circumstances on which to base a judgement. Therefore, the valuations of ECC property assets with a specific date of 23 March 2020 or later and all advice regarding any adjustments to earlier valuations in relation to the date of 31 March 2020 (the end of the subject financial year) are reported/is given on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.	The gross book value of operational land and buildings equates to **£1.426bn** (as at 31 March 2020); a **10%** movement in the current value these assets would equate to a gain or loss of **£142.552m**. A reduction in the gross book value would result in a reduction to the Revaluation Reserve and / or a loss being recorded in the Comprehensive Income and Expenditure Statement. Conversely, an increase in values would increase the Revaluation Reserve and / or reverse any downward revaluations previously charged to the Comprehensive Income and Expenditure Statement. The gross book value of investment properties at 31 March 2020 is **£39.181m**; a **10%** movement in value would equate to a gain or loss of **£3.918m**. Such a gain or loss would be posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.	Given the unknown future impact that COVID-19 might have on the UK real estate market, the valuation figures on the Council's property portfolio as at 31 March 2020 will be kept under frequent review.

	Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
	Consequently, less certainty – and a higher degree of caution – should be attached to valuations and advice in relation to the following classes of property asset than would normally be the case: · Land and buildings - **£1.398bn** · Surplus assets - **£52.338m** · Assets held for sale - **£2.413m** · Investment property - **£39.181m** Given the unknown future impact that COVID-19 might have on the UK real estate market, the valuation figures as at 31 March 2020 will be kept under frequent review.		
Fair value valuations	When the fair values of financial and non-financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques based on observable data.	Significant changes in any of the valuation inputs would result in a significantly lower or higher fair value measurement for the financial assets and liabilities.	The Council employs experts to identify the most appropriate valuation techniques to determine fair value. Information about the techniques used to determine the fair value is disclosed in notes 15.3, 19.3 and 19.5.
Pensions liability	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. The outbreak of the Novel Coronavirus (COVID-19) has impacted global financial markets. As a consequence, the Pension Fund was unable to attach as much weight to previous market evidence to inform opinions of value of property, equity and other investments as at 31 March 2020. Indeed, the current response to COVID-19 means that the Pension Fund is faced with an unprecedented set of circumstances on which to base a judgement. The Fund's valuation(s) are therefore reported on the basis of 'material valuation uncertainty'.	The net pension liability in the accounts amounts to **£888.101m** at 31st March 2020. The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 32.4 which commences on page 111.	The pensions liability reduced by **£103.776m** in 2019/20 because of changes in demographic, financial and other assumptions. Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.

	Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Credit loss allowance	An allowance is made for non-recovery of debts, based on historical debt collection rates, adjusted for factors that could impact future collection rates. The COVID-19 pandemic is unprecedented, and the full effects will not be known for many months yet. This has made it difficult to make a reliable assessment of the allowance required for non-recovery of debts.	Contractual debtors amounted to **£89.437m** at 31 March 2020, and the allowance made for credit losses amounted to **£16.402m**. Whilst the Council has taken a more pessimistic view of debt recovery rates this year, because of the pandemic, it is possible that the credit loss allowance has been under or over-stated. An adjustment to the credit loss allowance would impact on the Council's General Fund Balance.	The Council has a strong and proactive focus on debt recovery and keeps the adequacy of its credit loss allowance under continual review.
Collection Fund	The Council's Balance Sheet includes its share of the end of year balances in respect of council tax and non-domestic rates arrears and allowances for doubtful debts. It will not be possible to assess the full effect of the COVID-19 pandemic on collection rates for council tax and non-domestic rates for many months, making it difficult to make a reliable assessment of credit losses as at 31 March 2020.	Because of the statutory rules related to council tax and non-domestic rates, a deterioration in collection rates would not immediately impact on the Council – the impact would crystallise in cash terms in the distribution of the Collection Fund surpluses and deficits in 2021/22.	The Council's share of council tax and non-domestic rate debtors amounted to **£49.194m** at 31 March 2020, and its share of the allowances for credit losses amounted to **£22.978m**.

4. Accounting Standards issued but not yet adopted

The Council is required to disclose information relating to the impact on its financial statements of an accounting change that will be required by a new standard that has been issued but has not yet been adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code').

Several accounting changes are being adopted by the Code in 2020/21, but none will have a material impact on the Council's financial statements.

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard 16 Leases (IFRS 16) which, when adopted, will require the Council to recognise most of the assets it has secured the use of through a lease arrangement on its Balance Sheet as 'right of use' assets, together with the corresponding lease liabilities. This differs from the current practice of only recognising the assets and liabilities associated with the finance leases entered into by the Council on its Balance Sheet. It had been anticipated that IFRS 16 would be adopted in 2020/21, but implementation has now been deferred to the 2021/22 financial year.

5. Expenditure and Funding Analysis

5.1 Introduction

The Expenditure and Funding Analysis (see note 5.2) 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 5.3 (see page 59).

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

5.2 Expenditure and Funding Analysis

2018/19				2019/20		
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
116,199	5,388	121,587	Children and Families	122,909	7,938	130,847
17,467	4,391	21,858	Customer, Communities, Culture and Corporate	16,571	5,066	21,637
6,887	4,803	11,690	Economic Development	6,146	8,057	14,203
			Education and Skills			
820	(5,251)	(4,431)	Dedicated Schools Budget	451	1,414	1,865
78,351	38,358	116,709	Non Dedicated Schools Budget	89,141	112,607	201,748
87,007	4,975	91,982	Environment and Climate Change Action	80,947	3,071	84,018
14,011	1,663	15,674	Finance, Property and Housing	16,110	658	16,768
399,309	7,713	407,022	Health and Adult Social Care	407,305	8,278	415,583
54,294	14,870	69,164	Infrastructure	48,058	25,087	73,145
5,508	3,682	9,190	Leader	5,860	(4,809)	1,051
1,285	11	1,296	Performance, Business Planning and Partnerships	1,740	74	1,814
			Recharged Strategic Support Services			
56,377	18,029	74,406	Customer, Communities, Culture and Corporate	61,674	13,254	74,928
18,480	1,540	20,020	Finance, Property and Housing	17,624	1,646	19,270
2,123	99	2,222	Leader	2,227	157	2,384
7,884	632	8,516	Performance, Business Planning and Partnerships	7,959	877	8,836
866,002	100,903	966,905	Cost of services - continuing operations	884,722	183,375	1,068,097
(878,855)	176,501	(702,354)	Other income and expenditure not charged to services	(928,690)	(7,894)	(936,584)
(12,853)	277,404	264,551	Surplus on Provision of Services	(43,968)	175,481	131,513
			General Fund Balance			
(55,212)			Balance as at 1 April	(56,610)		
1,574			Restatement of opening balances	-		
(53,638)			Restated balance at 1 April	(56,610)		
(12,853)			Surplus on Provision of Services	(43,968)		
9,881			Transfers from Earmarked Revenue Reserves	44,139		
(56,610)			Balance as at 31 March	(56,439)		

Notes:

- *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 2019/20; comparative figures for 2018/19 have been restated on a consistent basis.*

5.3 Notes to Expenditure and Funding Analysis

5.3.1 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.

2018/19	Adjustments for capital purposes Note 5.3.2 £000	Net change for Pension Adjustments Note 5.3.3 £000	Other adjustments between funding and accounting Note 5.3.4 £000	Other differences Note 5.3.5 £000	Adjustments between the Funding and Accounting basis £000
Children and Families	529	4,859	-	-	5,388
Customer, Communities, Culture and Corporate	3,241	1,150	-	-	4,391
Economic Development	4,289	514	-	-	4,803
Education and Skills					
Dedicated Schools Budget	-	-	(2,351)	(2,900)	(5,251)
Non Dedicated Schools Budget	35,033	12,620	-	(9,295)	38,358
Environment and Climate Change Action	4,684	301	-	(10)	4,975
Finance, Property and Housing	1,831	182	-	(350)	1,663
Health and Adult Social Care	3,757	3,956	-	-	7,713
Infrastructure	24,790	880	-	(10,800)	14,870
Leader	6,812	6,080	-	(9,210)	3,682
Performance, Business Planning and Partnerships	-	11	-	-	11
Recharged Strategic Support Services					
Customer, Communities, Culture and Corporate	15,711	2,318	-	-	18,029
Finance, Property and Housing	-	1,602	-	(62)	1,540
Leader	-	99	-	-	99
Performance, Business Planning and Partnerships	-	632	-	-	632
Cost of services - continuing operations	**100,677**	**35,204**	**(2,351)**	**(32,627)**	**100,903**
Other income and expenditure not charged to services	112,116	28,012	3,746	32,627	176,501
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	**212,793**	**63,216**	**1,395**	**-**	**277,404**

2019/20	Adjustments for capital purposes Note 5.3.2 £000	Net change for Pension Adjustments Note 5.3.3 £000	Other adjustments between funding and accounting Note 5.3.4 £000	Other differences Note 5.3.5 £000	Adjustments between the Funding and Accounting basis £000
Children and Families	1,680	5,659	599	-	7,938
Customer, Communities, Culture and Corporate	3,343	1,635	88	-	5,066
Economic Development	7,500	507	50	-	8,057
Education and Skills					
Dedicated Schools Budget	-	-	(1,045)	2,459	1,414
Non Dedicated Schools Budget	107,720	13,690	240	(9,043)	112,607
Environment and Climate Change Action	2,608	429	45	(11)	3,071
Finance, Property and Housing	821	267	21	(451)	658
Health and Adult Social Care	3,174	4,576	528	-	8,278
Infrastructure	34,352	953	73	(10,291)	25,087
Leader	(4,261)	(713)	9	156	(4,809)
Performance, Business Planning and Partnerships	-	62	12	-	74
Recharged Strategic Support Services					
Customer, Communities, Culture and Corporate	10,020	3,022	212	-	13,254
Finance, Property and Housing	-	1,843	13	(210)	1,646
Leader	-	141	16	-	157
Performance, Business Planning and Partnerships	-	841	36	-	877
Cost of services - continuing operations	**166,957**	**32,912**	**897**	**(17,391)**	**183,375**
Other income and expenditure not charged to services	(61,906)	24,161	12,460	17,391	(7,894)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	**105,051**	**57,073**	**13,357**	**-**	**175,481**

5.3.2 *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.

5.3.3 *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.

5.3.4 *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.

5.3.5 *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.

6. Expenditure and income analysed by nature

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

2018/19 £000		2019/20 £000
	Expenditure	
531,199	Employee expenses	530,470
1,316,822	Other service expenditure	1,345,308
103,276	Depreciation, amortisation and impairment	131,838
38,987	Interest payable and similar charges	47,147
3,267	Precepts and levies	3,313
215,329	(Gain) / loss on disposal of fixed assets	46,191
89,543	Corporate amounts	76,643
2,298,423	**Total expenditure**	**2,180,910**
	Income	
(274,542)	Fees, charges and other service income	(271,390)
(2,585)	Interest and investment income	(2,051)
(57,554)	Corporate amounts	(56,846)
(685,461)	Income from council tax and non domestic rates	(721,420)
(1,013,730)	Government grants and contributions	(997,690)
(2,033,872)	**Total income**	**(2,049,397)**
264,551	**Deficit on the Provision of Services**	**131,513**

7. 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.

2018/19	Notes	Usable Reserves				
		Earmarked General Reserves £000	General Fund Balance £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000
Adjustments involving the Capital Adjustment Account (CAA)	27.3					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Depreciation and impairment of non current assets		-	(100,906)	-	-	(100,906)
Amortisation of intangible assets		-	(2,370)	-	-	(2,370)
Movement in market value of investment properties		-	(8,095)	-	-	(8,095)
Capital grants and contributions applied		-	142,600	-	-	142,600
Revenue expenditure funded from capital under statute		-	(69,862)	-	-	(69,862)
Value of assets disposed of during the year		-	(224,485)	-	-	(224,485)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment		-	33,116	-	-	33,116
Capital expenditure charged against the General Fund		-	5,038	-	-	5,038
Adjustments involving the Capital Adjustment Account		-	(224,964)	-	-	(224,964)
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	1,290	1,290
Grants and contributions unapplied		-	2,953	-	(2,953)	-
Adjustments involving the Capital Grants Unapplied A/C		-	2,953	-	(1,663)	1,290
Adjustments involving the Capital Receipts Reserve						
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
Adjustments involving the Capital Receipts Reserve		-	9,218	-	-	9,218
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	27.4					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	58	-	-	58
Adjustments involving the FIAA		-	58	-	-	58
Adjustments involving the Pooled Investment Funds Adjustment Account	27.5					
Gain or loss on the valuation of pooled investment funds		-	169	-	-	169
Adjustments involving the Pooled Invest Funds Adj Account		-	169	-	-	169
Adjustments involving the Pensions Reserve	27.6					
Reversal of items debited/credited to the CIES		-	(119,660)	-	-	(119,660)
Employers' pension contributions payable in the year		-	56,444	-	-	56,444
Adjustments involving the Pensions Reserve		-	(63,216)	-	-	(63,216)
Adjustments involving the Collection Fund Adjustment Account	27.7					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(3,973)	-	-	(3,973)
Adjustments involving the Collection Fund Adj Account		-	(3,973)	-	-	(3,973)
Adjustments involving the Accumulated Absences Account	27.8					
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
Adjustments involving the Accumulated Absences Account		-	2,351	-	-	2,351
Total adjustments		-	(277,404)	-	(1,663)	(279,067)

2019/20	Notes	Usable Reserves				
		Earmarked General Reserves £000	General Fund Balance £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000
Adjustments involving the Capital Adjustment Account (CAA)	27.3					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Depreciation and impairment of non current assets		-	(128,854)	-	-	(128,854)
Amortisation of intangible assets		-	(2,984)	-	-	(2,984)
Impairment of assets held for sale		-	(6)	-	-	(6)
Movement in market value of investment properties		-	1,269	-	-	1,269
Capital grants and contributions applied		-	109,016	-	-	109,016
Revenue expenditure funded from capital under statute		-	(74,640)	-	-	(74,640)
Value of assets disposed of during the year		-	(72,931)	-	-	(72,931)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment		-	37,122	-	-	37,122
Adjustments involving the Capital Adjustment Account		-	(132,008)	-	-	(132,008)
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	2,962	2,962
Adjustments involving the Capital Grants Unapplied A/C		-	-	-	2,962	2,962
Adjustments involving the Capital Receipts Reserve						
Sale proceeds (part of gain/loss on disposal)		-	26,957	(29,142)	-	(2,185)
Loan repayments - loans awarded for capital purposes		-	-	(19)	-	(19)
Use of reserve to finance new capital expenditure		-	-	17,935	-	17,935
Use of capital receipts to repay debt		-	-	1,645	-	1,645
Adjustments involving the Capital Receipts Reserve		-	26,957	(9,581)	-	17,376
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	27.4					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	(9,449)	-	-	(9,449)
Adjustments involving the FIAA		-	(9,449)	-	-	(9,449)
Adjustments involving the Pooled Investment Funds Adjustment Account	27.5					
Gain or loss on the valuation of pooled investment funds		-	(394)	-	-	(394)
Adjustments involving the Pooled Invest Funds Adj Account		-	(394)	-	-	(394)
Adjustments involving the Pensions Reserve	27.6					
Reversal of items debited/credited to the CIES		-	(113,810)	-	-	(113,810)
Employers' pension contributions payable in the year		-	56,737	-	-	56,737
Adjustments involving the Pensions Reserve		-	(57,073)	-	-	(57,073)
Adjustments involving the Collection Fund Adjustment Account	27.7					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(2,638)	-	-	(2,638)
Adjustments involving the Collection Fund Adj Account		-	(2,638)	-	-	(2,638)
Adjustments involving the Accumulated Absences Account	27.8					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	(876)	-	-	(876)
Adjustments involving the Accumulated Absences Account		-	(876)	-	-	(876)
Total adjustments		-	(175,481)	(9,581)	2,962	(182,100)

8. Earmarked revenue reserves

The Council maintains earmarked revenue 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
RESTRICTED USE	
Grant equalisation reserve	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Note 1.5) and incurring the grant eligible expenditure.
PFI equalisation reserves	Used to equalise the impact of expenditure and government grant over the life of the PFI contracts.
Waste reserve	To smooth the effects of future increases in the costs of waste disposal.
Partnerships	To retain unspent contributions from partners and to apply them in subsequent years.
Schools	Schools are permitted to retain unspent resources which are held in the Schools Reserves. The statutory authority to commit these reserves rests with school governing bodies.
DSG Deficit	This reserve discloses the accumulated deficit on the dedicated schools' budget; the Council cannot fund the deficit from its General Fund without the approval of the Secretary of State for Education. The deficit must be recovered through future dedicated schools grant funding and the recovery plans agreed with the Department for Education.
Trading activities	Surpluses generated by the Council's internal trading activities, to be applied by these activities in subsequent years.
OTHER RESERVES	
Adults Digital Programme	Established to enable investment in innovative and digital solutions for Adult Social Care.
Bursaries	To provide bursaries for trainee carers.
Capital receipts pump priming	Used to meet costs associated with bringing properties into readiness for disposal.
Carbon reduction	Used to finance measures aimed at reducing the Council's carbon footprint.

Reserves	Purpose and usage
Carry Forwards	Used to carry under spends in the year of account forward to support expenditure plans in the forthcoming financial year.
Collection Fund investment risk	Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.
Commercial Investment in Essex Places	Established to fund commercial investment in Essex places that aligns to the Council's housing growth and town centre agendas.
Community Initiatives Fund	Established to fund revenue and capital community initiatives.
COVID-19 recovery	To support COVID-19 recovery activity.
Digital infrastructure	Established to fund the Council's digital transformation.
EES Pension Risk	To be used to meet future pension liabilities arising in relation to the staff who transferred to new owner of EES for Schools.
Emergency	Established as funding to address emerging budget pressures.
Health and safety	Used to meet the costs of undertaking asbestos, legionella and disability discrimination act surveys.
Insurance	Provides for future potential and contingent liabilities for insurance claims.
Property Investment	The net proceeds from the Council's investment properties are set aside to mitigate against future income loss.
Quadrennial elections	Established to meet costs associated with the Council's local elections.
Service Improvement	To support investment that will deliver service improvements.
Social distancing and hygiene	To fund the social distancing and hygiene measures required during the COVID-19 pandemic.
Technology solutions	Established to meet the future cost of replacing key Council technology systems.
Transformation	Used to meet costs associated with project and change management aspects of the Council's ambitious programme of transformation.

Unless otherwise state, there are no time constraints placed upon usage of the Council's earmarked revenue reserves.

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

	Balance 1 April 2018	2018/19 movements Contributions	Withdrawals	Balance 31 March 2019	2019/20 movements Contributions	Withdrawals	Balance 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Restricted use							
Grant equalisation reserve	(10,786)	(4,610)	2,760	(12,636)	(39,861)	2,644	(49,853)
PFI equalisation reserves	(53,767)	(1,181)	4,394	(50,554)	(600)	10,481	(40,673)
Waste reserve	(99,733)	(8,776)	4,878	(103,631)	(9,245)	600	(112,276)
Partnership reserves	(1,771)	(66)	216	(1,621)	(74)	237	(1,458)
Schools	(41,648)	(5,924)	9,547	(38,025)	(4,022)	7,405	(34,642)
Dedicated Schools Grant deficit	-	-	-	-	-	5,359	5,359
Trading activities	(1,415)	(359)	1,123	(651)	(230)	53	(828)
Total restricted reserves	(209,120)	(20,916)	22,918	(207,118)	(54,032)	26,779	(234,371)
Reserves earmarked for future use							
Future capital funding	(10,061)	(7,038)	5,038	(12,061)	10,156	-	(1,905)
Other reserves							
Adults Digital Programme	(6,900)	(3,156)	4,800	(5,256)	(1,030)	3,417	(2,869)
Bursary for Trainee Carers	-	-	-	-	(500)	-	(500)
Capital receipts pump priming	(2,325)	(1,000)	121	(3,204)	-	-	(3,204)
Carbon reduction	(2,606)	-	303	(2,303)	(313)	1,994	(622)
Carry forwards	(16,395)	(23,250)	16,395	(23,250)	(14,804)	23,250	(14,804)
Collection Fund investment risk	(1,412)	-	-	(1,412)	-	-	(1,412)
Commercial investment in Essex Places	-	-	-	-	(12,583)	-	(12,583)
Community Initiatives Fund	(796)	(2,370)	2,013	(1,153)	-	666	(487)
COVID-19 Recovery	-	-	-	-	(2,900)	-	(2,900)
Digital Infrastructure	-	(5,000)	1,947	(3,053)	-	3,053	-
EES pension risk reserve	-	-	-	-	(4,000)	-	(4,000)
Emergency	-	-	-	-	(4,000)	4,000	-
Health and safety	(631)	(250)	-	(881)	(2,219)	-	(3,100)
Insurance	(9,061)	-	1,000	(8,061)	-	650	(7,411)
Property Fund	-	(326)	-	(326)	(325)	-	(651)
Quadrenniel elections	(118)	(500)	-	(618)	(502)	27	(1,093)
Service Improvement	-	-	-	-	(6,941)	2,970	(3,971)
Social distancing and hygiene	-	-	-	-	(900)	-	(900)
Technology Solutions	-	-	-	-	(3,785)	-	(3,785)
Transformation	(22,015)	(29,969)	26,791	(25,193)	(19,783)	7,575	(37,401)
Other reserves	(3,557)	(300)	2,868	(989)	(252)	193	(1,048)
Total other reserves	(65,816)	(66,121)	56,238	(75,699)	(74,837)	47,795	(102,741)
Total earmarked revenue reserves	(284,997)	(94,075)	84,194	(294,878)	(118,713)	74,574	(339,017)

9. Other operating expenditure

Other operating expenditure comprises of the following:

2018/19 £000		2019/20 £000
	(Gains)/losses on the disposal of non current assets	
(9,218)	Disposal proceeds	**(26,957)**
224,485	Carrying value of assets disposed of during the year	**72,931**
-	Impairment of Assets Held for Sale	**6**
62	Disposal costs	**211**
215,329	**Total (gains)/losses on the disposal of non current assets**	**46,191**
	Precepts and levies	
1,257	Lee Valley Regional Park	**1,255**
1,626	Environment Agency	**1,674**
384	Kent & Essex Inshore Fisheries & Conservation Authority	**384**
3,267	**Precepts and levies**	**3,313**
218,596	**Total Other Operating Expenditure**	**49,504**

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.

10. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

2018/19 £000		2019/20 £000
	Net interest on the net defined benefit liability	
81,414	Interest cost	**77,713**
(53,812)	Interest on assets	**(53,885)**
27,602		**23,828**
38,987	Interest payable and similar charges	**47,147**
(2,585)	Interest receivable and similar income	**(2,051)**
6,194	Income and expenditure related to investment properties and changes in their value	**(3,167)**
(1,950)	Net surplus on trading activities	**(675)**
-	Other investment income (Dividends receivable)	**(334)**
68,248	**Financing and Investment income and expenditure**	**64,748**

11. Trading operations

The Council has several 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	Delivered advisory and inspection, governor, library services and financial management support to schools until **December 2019**. These services were transferred to a private sector provider in December, in return for a financial consideration, and the trading account has now been closed.
▪ School staffing insurance scheme	The School staffing insurance scheme trading activity was closed at the end of the 2018/19 financial year. It operated a self-insurance scheme for schools, supporting sickness and relocation expenses.
▪ Music Services	Delivers music services to schools.
▪ Information Services infrastructure	Monitored the decommissioning and refresh of IT equipment within the Council. This trading account was closed at the end of the 2019/20 financial year.
▪ Place Services	Provides environmental planning support and arboriculture services.

The net surplus 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 £000	Movements: Income £000	Expend-iture £000	Net (Surplus) / deficit £000	Approp-riations £000	Balance at 31 March £000
2018/19						
EES for Schools	(321)	(10,499)	8,076	(2,423)	2,744	-
School staffing insurance scheme	(263)	(4,075)	5,172	1,097	(834)	-
Music Services	-	(4,529)	4,233	(296)	128	(168)
Information Services infrastructure	(538)	(3,687)	3,543	(144)	682	-
Place Services	(293)	(2,856)	2,672	(184)	(6)	(483)
	(1,415)	**(25,646)**	**23,696**	**(1,950)**	**2,714**	**(651)**
2019/20						
EES for Schools	-	(6,776)	6,603	(173)	173	-
Music Services	(168)	(4,428)	4,416	(12)	65	(115)
Information Services infrastructure	-	(1,406)	1,185	(221)	221	-
Place Services	(483)	(3,099)	2,830	(269)	39	(713)
	(651)	**(15,709)**	**15,034**	**(675)**	**498**	**(828)**

12. Taxation and non-specific grant income

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

2018/19 £000		2019/20 £000
	Taxation	
(641,542)	Council tax	**(678,882)**
(43,919)	Non domestic rates	**(42,538)**
(303,737)	**Non specific grant income**	**(329,416)**
(989,198)	**Taxation and non specific grant income**	**(1,050,836)**

13. Grant income

13.1 Amounts credited to Taxation and Non-Specific Grant income

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

2018/19 £000		2019/20 £000
	Non ring-fenced grants	
(130,940)	Non Domestic Rates *(Top up grant and Safety net / levy)*	**(133,768)**
-	Covid-19 Emergency Funding	**(37,395)**
(27,123)	Private Finance Initiative Grants	**(27,123)**
(45,738)	Revenue Support Grant	**(18,300)**
(4,551)	New Homes Bonus / New Homes Bonus Adjustment Grant	**(4,721)**
(3,700)	Adult Social Care Support Grant	**(10,112)**
(5,249)	Independent Living Fund Grant	**(5,089)**
(11,586)	Business Rates (Section 31 Grants)	**(11,423)**
(1,230)	Other non ring-fenced grants	**(1,249)**
(230,117)		**(249,180)**
	Capital grants and contributions	
	Department for Education	
(18,077)	Basic need	**(1,861)**
(4,782)	Other	**(6,243)**
	Department for Transport grants	
(19,626)	Direct funding	**(23,932)**
(7,640)	Integrated transport grant	**(6,924)**
(6,055)	Other	**(15,197)**
(10,162)	South East Local Enterprise Partnership - Local Growth Fund	**(13,298)**
(7,278)	Other grants and contributions	**(12,781)**
(73,620)		**(80,236)**
(303,737)	**Total non-specific grant income**	**(329,416)**

*Note: The **COVID-19 Emergency Funding** awarded to the Council in March 2020 was transferred into the **Grant Equalisation** earmarked revenue reserve (see Note 8 which commences on page 65), and will be used to meet costs arising in relation to the pandemic in 2020/21.*

13.2 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:

2018/19				2019/20		
Capital grants £000	Specific revenue grants £000	Total £000		Capital grants £000	Specific revenue grants £000	Total £000
			Department for Education (incl. Education and Skills Funding Agency)			
(42,080)	(3,498)	**(45,578)**	Department for Education grants	(12,808)	(3,989)	**(16,797)**
			Education and Skills Funding Agency grants			
-	(476,965)	**(476,965)**	Dedicated Schools grant	-	(464,793)	**(464,793)**
-	(18,161)	**(18,161)**	Pupil Premium grant	-	(17,362)	**(17,362)**
-	(11,447)	**(11,447)**	Universal Infants Free School Meals	-	(9,783)	**(9,783)**
-	(7,927)	**(7,927)**	Adult Community Learning	-	(7,945)	**(7,945)**
-	(10,811)	**(10,811)**	Other Education and Skills Funding Agency grants	-	(17,176)	**(17,176)**
(42,080)	**(528,809)**	**(570,889)**		**(12,808)**	**(521,048)**	**(533,856)**
			Department of Health and Social Care			
-	(62,479)	**(62,479)**	Public Health grant	-	(60,829)	**(60,829)**
-	(5,919)	**(5,919)**	Winter Pressures grant	-	-	**-**
-	(2,340)	**(2,340)**	Other Department of Health grants	-	(2,359)	**(2,359)**
-	**(70,738)**	**(70,738)**		**-**	**(63,188)**	**(63,188)**
			Ministry of Housing, Communities and Local Government (MHCLG)			
-	(34,006)	**(34,006)**	Additional Better Care Fund grant	-	(39,983)	**(39,983)**
-	(3,830)	**(3,830)**	Other MHCLG grants	-	(3,782)	**(3,782)**
-	**(37,836)**	**(37,836)**		**-**	**(43,765)**	**(43,765)**
			Grants awarded by other bodies			
(891)	-	**(891)**	Department for Digital, Culture, Media and Sports	(972)	-	**(972)**
(7,822)	(1,470)	**(9,292)**	Department for Transport	-	(2,680)	**(2,680)**
-	(5,364)	**(5,364)**	Home Office	-	(7,133)	**(7,133)**
(8,455)	(6,528)	**(14,983)**	Other grants	(6,054)	(10,626)	**(16,680)**
(17,168)	**(13,362)**	**(30,530)**		**(7,026)**	**(20,439)**	**(27,465)**
(59,248)	**(650,745)**	**(709,993)**		**(19,834)**	**(648,440)**	**(668,274)**

Note: Comparative figures for the prior year have been grouped on a basis consistent with 2019/20.

14. 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.

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 2019/20 are provided in the following table.

2018/19		2019/20	Deployment in 2019/20	
		Total	Central Expenditure	Individual Schools Budget
£000		£000	£000	£000
(1,068,459)	Final DSG for the year (before Academy recoupment)	(1,090,849)		
586,477	Academy figure recouped	623,430		
(481,982)	**Total DSG after Academy recoupment**	**(467,419)**		
5,096	Brought forward from previous year	3,019		
-	Carry forward to next year agreed in advance	-		
(476,886)	**Agreed initial budgeted distribution**	**(464,400)**	**(76,547)**	**(387,853)**
1,755	In year adjustments	(1,627)		(1,627)
(475,131)	**Final budgeted distribution**	**(466,027)**	**(76,547)**	**(389,480)**
478,150	Actual central expenditure / ISB deployed	471,386	81,906	389,480
-	Council's contribution for year	-	-	-
3,019	**Deficit carried forward to next year**	**5,359**	**5,359**	**-**

The School and Early Years Finance (England) Regulations 2020 stipulate that the Council cannot fund the deficit on the Dedicated Schools budget from its General Fund without the Secretary of State for Education's approval. In accordance with these Regulations, the Council is carrying forward the full deficit at the end of the 2019/20 financial year into next year's funding period. The accumulated deficit is disclosed as an earmarked revenue reserve (see note 8, which commences on page 65).

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

15.1 Movement in balances – 2018/19

	Property, plant and equipment						Intangible Assets	Investment Property	Heritage Assets	Assets held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value										
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)
Reclassifications 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	-
As at 31 March 2019	**1,446,356**	**54,952**	**1,552,614**	**3,360**	**168,935**	**56,013**	**16,490**	**38,337**	**14,610**	**6,124**
Depreciation / Amortisation										
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)	-	-	-	-
As at 31 March 2019	**(38,688)**	**(43,922)**	**(411,245)**	**(230)**	**-**	**(889)**	**(9,161)**	**-**	**(38)**	**-**
Net book value at 31 March 2018	**1,571,218**	**16,197**	**1,075,953**	**3,117**	**135,115**	**45,003**	**9,396**	**39,920**	**14,501**	**3,795**
Net book value at 31 March 2019	**1,407,668**	**11,030**	**1,141,369**	**3,130**	**168,935**	**55,124**	**7,329**	**38,337**	**14,572**	**6,124**

15.2 Movement in balances – 2019/20

	Property, plant and equipment						Intangible Assets	Investment Property	Heritage Assets	Assets held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value										
As at 1 April 2019	1,446,356	54,952	1,552,614	3,360	168,935	56,013	16,490	38,337	14,610	6,124
Additions	(375)	2,606	-	-	107,477	-	-	-	-	-
Revaluation increases / (decreases) recognised in:										
Revaluation Reserve	39,008	-	-	-	-	11,185	-	-	-	-
Surplus/Deficit on the provision of services	(61,684)	-	-	-	-	3,390	-	1,269	-	(6)
Disposals	(59,043)	(2,947)	-	(2)	-	(5,818)	(972)	(432)	-	(5,828)
Reclassifications to / (from) other categories	9,971	-	-	-	-	(12,094)	-	-	-	2,123
Transfers from assets under construction	51,333	204	82,481	216	(138,893)	317	4,237	7	98	-
As at 31 March 2020	**1,425,566**	**54,815**	**1,635,095**	**3,574**	**137,519**	**52,993**	**19,755**	**39,181**	**14,708**	**2,413**
Depreciation / Amortisation										
As at 1 April 2019	(38,688)	(43,922)	(411,245)	(230)	-	(889)	(9,161)	-	(38)	-
Revaluations and restatements	33,650	-	-	-	-	75	-	-	-	-
Depreciation / amortisation on impairments	4,598	-	-	-	-	28	-	-	-	-
Depreciation / amortisation for the year	(28,525)	(3,364)	(42,916)	(69)	-	(310)	(2,984)	-	(3)	-
Depreciation / amortisation on assets sold	1,514	2,115	-	-	-	430	972	-	-	-
Other movements in depreciation / impairment	(11)	-	-	-	-	11	-	-	-	-
As at 31 March 2020	**(27,462)**	**(45,171)**	**(454,161)**	**(299)**	**-**	**(655)**	**(11,173)**	**-**	**(41)**	**-**
Net book value at 31 March 2019	**1,407,668**	**11,030**	**1,141,369**	**3,130**	**168,935**	**55,124**	**7,329**	**38,337**	**14,572**	**6,124**
Net book value at 31 March 2020	**1,398,104**	**9,644**	**1,180,934**	**3,275**	**137,519**	**52,338**	**8,582**	**39,181**	**14,667**	**2,413**

15.3 Fair value measurement

In accordance with Note 1.20 (page 50), 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 31 March 2020 is as follows:

31st March 2019				31st March 2020		
Level 1 *Quoted price in active market for identical assets* £000	Level 2 *Other significant observable inputs* £000	Fair value £000		Level 1 *Quoted price in active market for identical assets* £000	Level 2 *Other significant observable inputs* £000	Fair value £000
			Surplus properties			
5,025	27,568	32,593	Former school sites	5,025	24,462	29,487
2,414	8,880	11,294	Land	2,521	8,390	10,911
4,216	7,910	12,126	Other	2,907	9,688	12,595
11,655	44,358	56,013		10,453	42,540	52,993
			Investment properties			
-	14,079	14,079	Retail Park	-	12,250	12,250
-	10,749	10,749	Office Block	-	10,200	10,200
-	6,300	6,300	Industrial Unit	-	6,600	6,600
1,144	5,110	6,254	Agricultural tenancies	-	9,145	9,145
523	432	955	Other	-	986	986
1,667	36,670	38,337		-	39,181	39,181

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.

15.4 Capital commitments

At 31 March 2020, the Council had entered into contracts for the construction or enhancement of Property, Plant and Equipment. The commitments are summarised as follows:

31 March 2019 £000		31 March 2020 £000
13,836	Highways and Transportation	43,878
15,894	Education (schools)	12,461
12,188	Information Services	14,542
7,526	Other	7,440
49,444		78,321

15.5 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 2016 £000	31 March 2017 £000	31 March 2018 £000	31 March 2019 £000	31 March 2020 £000	
Operational Assets							
Land and buildings	-	99,165	169,793	355,407	277,728	523,473	1,425,566
Vehicles, plant & equipment	54,815	-	-	-	-	-	54,815
Infrastructure	1,635,095	-	-	-	-	-	1,635,095
Community Assets	3,574	-	-	-	-	-	3,574
Non-Operational Assets							
Surplus Assets	-	12,418	6,107	9,131	18,249	7,088	52,993
Assets under construction	137,519	-	-	-	-	-	137,519
Gross book value	1,831,003	111,583	175,900	364,538	295,977	530,561	3,309,562

Land and buildings are either valued at their 'existing use value' (EUV) or at 'depreciated replacement cost' (DRC). Where there is no active market for the land and buildings, because of their specialist nature, DRC is used as an estimate of current value (**95%** of the Council's land and buildings are estimated using DRC).

Depreciated historical cost (DHC) is used as a proxy for current value for assets which:

- Have low values and/or short lives (vehicles, plant and equipment);
- Are not used up as they provide services (community assets);
- Can only be used for the purpose originally constructed (infrastructure assets);
- Are still being constructed (assets under construction).

The current value measurement for surplus assets is 'fair value', estimated at highest and best use from a market participants perspective (see note 15.3, on page 76, for further details).

16. 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.

2018/19 £000		2019/20 £000
992,451	**Opening Capital Financing Requirement**	**1,056,856**
	Capital investment	
172,897	Property, plant and equipment	109,170
6,673	Investment property	7
-	Intangible assets	122
6,423	Inventories	2,688
69,862	Revenue expenditure funded from capital under statute	74,640
627	Loans awarded for capital purposes	1,350
250	Equity investments	-
256,732	**Total capital investment**	**187,977**
	Sources of finance	
(10,283)	Capital receipts	(19,580)
(143,890)	Government grants and contributions	(111,978)
(5,038)	Earmarked revenue reserves applied	-
(33,116)	Revenue provision for the repayment of debt	(37,122)
(192,327)	**Total sources of finance**	**(168,680)**
64,405	**Increase in the Capital Financing Requirement**	**19,297**
1,056,856	**Closing Capital Financing Requirement**	**1,076,153**
	Explanation of movements in year	
64,302	Increase in underlying need to borrow	17,226
103	Increase for assets acquired under finance lease	2,071
64,405	**Increase in the Capital Financing Requirement**	**19,297**

17. Leases

17.1 Council as Lessee – Finance leases

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

31 March 2019			31 March 2020	
Short Term £000	Long Term £000		Short Term £000	Long Term £000
8	797	Property	14	393
1,307	3,229	Vehicles, plant and equipment	1,038	3,900
6,636	126,931	Private Finance Initiatives	6,577	111,287
7,951	130,957		7,629	115,580

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 18, which commences on page 80.

17.2 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 2019				31 March 2020		
Property £000	Other £000	Total £000		Property £000	Other £000	Total £000
3,128	1,933	5,061	One year	3,001	814	3,815
10,733	1,314	12,047	Two to five years	9,611	1,191	10,802
51,123	21	51,144	Over five years	47,234	120	47,354
64,984	3,268	68,252	Total lease rentals	59,846	2,125	61,971

17.3 Council as Lessor – Finance leases

The Council has leased out several properties under the terms of a finance lease. 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.

The gross investment is made up of the following amounts:

31 March 2019 £000		31 March 2020 £000
	Finance lease debtor	
25	Current	-
2,494	Non-current	334
2,519		**334**

17.4 Council as lessor – Operating leases

The Council leases out properties within its Investment Property portfolio, as detailed in Note 15.3, on page 76. 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 2019 £000		31 March 2020 £000
3,374	Not later than one year	3,246
11,105	Later than one year and not later than five years	5,560
12,049	Later than five years	2,305
26,528	**Total**	**11,111**

The future minimum lease payments receivable as at 31 March 2020 reflect the amounts receivable up to the earliest date that the lessees can exit from the arrangements without penalty. The comparative figures for the previous financial year assumed that these leases would continue to the end of their contractual term.

18. Private Finance Initiative and similar contracts

18.1 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
A130 Bypass	This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities. 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 and land costs were estimated at **£80m**. Payments are made to the Contractor for the provision of the road surface and are based upon the availability and usage of the road. Deductions can be made if the road is closed

Scheme	Nature and significant terms
	or if traffic flow is affected by road works. The road will be passed to the Council in a repaired/neutral state at the end of the arrangements in 2030.
Debden Park School	Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of it. Initial construction costs were in the region of **£15m**. The contractor is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026). The amounts paid to the Contractor vary according to inflation, the proportion of time that the facilities are made available to the school and according to the achievement of performance goals.
Clacton Secondary Schools	This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of **£34m**. 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). 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 schools, and the extent to which the Operator meets agreed performance goals.
Tendring Primary Schools	The Council entered into a contract in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of **£15m**. The Operator was operating and maintaining the schools' facilities for a contract term of 32 years. The Council gave notice of its intention to voluntarily terminate the contract on 28 September 2018; the effective date of termination was **28 December 2019**. The Council elected to terminate the contract early on value for money grounds. An early termination premium of **£9.767m** was payable to the contractor to extinguish the Council's liability on the effective date of termination. This premium was carried into the Financial Instruments Adjustment Account (see note 27.4 on page 99) and will be charged to the General Fund over the unexpired term that was outstanding on the contract when it was terminated.
Castleview, Cornelius Vermuyden and Columbus Schools	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. 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. 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. The Council carries the PFI liabilities on its own Balance Sheet for one of these schools (the Columbus School), as this school was a community school at financial close of the contract. The construction costs of this school amounted to **£22.3m**.

Scheme	Nature and significant terms
Woodlands School	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. Construction costs for this school amounted to **£27m**. The school became operational in January 2014. It converted to academy status on 1 April 2015. Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of **£4m** per annum.
Waste Treatment Plant - Basildon	This contract was entered into on 31 May 2012 with UBB Waste (Essex) Ltd and provides for the design, construction, finance and operation of a waste treatment plant in Basildon. Work on the physical construction commenced in March 2013; the Facility required capital expenditure in the region of **£107m** (borne by the private sector) and achieved the Readiness Date in November 2014. The Facility is still in its commissioning phase and the contractual longstop date has passed, however at this time the Facility is not accepting waste. The parties are utilising the contractual and dispute mechanisms to seek resolution to the commissioning issues that have arisen (*see page 96 for further details*). 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. Under the contract, the property interest reverts to the Council for nil consideration upon the expiry of the 25 year PFI contract.

18.2 Details of payments to be made under PFI contracts

The Council makes agreed payments under the schemes detailed in note 18.1 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					
	Within one year £000	2 - 5 years £000	6 - 10 years £000	11 - 15 years £000	16 - 20 years £000	Total £000
Service charges	6,669	28,574	37,403	31,998	6,842	111,486
Interest and similar charges	17,129	71,745	36,317	16,525	2,915	144,631
Repayment of liability	6,577	48,260	26,830	25,719	10,478	117,864
Lifecycle replacement	3,289	11,048	16,891	6,226	1,244	38,698
Total	**33,664**	**159,627**	**117,441**	**80,468**	**21,479**	**412,679**

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.

18.3 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 2019 £000		31st March 2020 £000
	Gross Book Value	
145,339	As at 1 April	146,706
-	Additions	
	Revaluation increases / (decreases) recognised in:	
1,359	Revaluation Reserve	(1,555)
-	Surplus/Deficit on the provision of services	(1,165)
8	Transfers to / (from) assets under construction	-
-	Assets no longer subject to PFI arrangement	(41,226)
146,706	**As at 31 March**	**102,760**
	Depreciation / Amortisation	
(33,330)	As at 1 April	(35,589)
703	Revaluations and restatements	498
-	Depreciation / amortisation on impairments	16
(2,962)	Depreciation / amortisation for the year	(2,283)
-	Depreciation on assets no longer subject to PFI arrangements	269
(35,589)	**As at 31 March**	**(37,089)**
112,009	***Net book value at 1 April***	*111,117*
111,117	***Net book value at 31 March***	*65,671*

As noted on page 81, the Council elected to terminate its Tendring Primary Schools Public Private Partnership (PPP) contract early. In accordance with accounting policy note 1.16 (which commences on page 47), the Council already carried on its Balance Sheet the assets provided under this contract that it deemed it controlled, and which would pass to the Council at the end of the contract for no additional charge. Hence, these assets have been removed from the above analysis, but they remain on the Council's Balance Sheet.

18.4 Value of PFI liabilities for capital expenditure

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

2018/19 £000		2019/20 £000
(140,120)	**Balance as at 1 April**	(133,568)
6,552	Liabilities repaid	15,704
(133,568)	**Balance as at 31 March**	**(117,864)**

19. Financial instruments

19.1 Categories of Financial Instruments

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

31 March 2019 (restated)				31 March 2020		
Long term £000	Short term £000	Total £000		Long term £000	Short term £000	Total £000
			Financial assets			
			Investments			
11,645	-	**11,645**	Fair value through Profit or Loss	11,254	-	**11,254**
1,470	90,209	**91,679**	Amortised cost	1,451	115,191	**116,642**
13,115	**90,209**	**103,324**		**12,705**	**115,191**	**127,896**
5,591	93,896	**99,487**	Debtors (contractual)	4,810	84,627	**89,437**
-	209,820	**209,820**	Cash and cash equivalents	-	326,354	**326,354**
18,706	**393,925**	**412,631**	**Total**	**17,515**	**526,172**	**543,687**
			Financial liabilities (amortised cost)			
(511,798)	(8,572)	**(520,370)**	Borrowing	(598,941)	(25,548)	**(624,489)**
(130,957)	(7,951)	**(138,908)**	PFI / Finance lease liabilities	(115,580)	(7,629)	**(123,209)**
(1,113)	(283,666)	**(284,779)**	Creditors (contractual)	(1,215)	(296,467)	**(297,682)**
-	(52,242)	**(52,242)**	Bank overdraft	-	(17,718)	**(17,718)**
(643,868)	**(352,431)**	**(996,299)**	**Total**	**(715,736)**	**(347,362)**	**(1,063,098)**

Note: The comparative figures for the prior year have been restated on a basis consistent with 2019/20. The restatement has been made because the pooled position on the Council's bank accounts was previously offset against cash and cash equivalents, but it should have been shown as a bank overdraft within current liabilities instead.

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.

19.2 Income, expense, gains and losses

The following table provides an analysis of the items included within the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in relation to income, expense and gains and losses on financial instruments:

2018/19 £000		2019/20 £000
	Net gains / losses	
	Financial assets classified as:	
(169)	Fair value through profit or loss	394
(169)	**Net gains / losses**	394
	Interest revenue	
	Financial assets classified as:	
(692)	Fair value through profit or loss	(644)
(1,724)	Amortised cost	(1,801)
(2,416)	**Interest revenue**	(2,445)
38,987	**Interest expense**	47,147
36,402	**Net (gain) / loss for the year**	45,096

19.3 Fair values of financial assets carried at fair value

The financial assets classified as 'Fair Value through Profit and Loss' in note 19.1 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.

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

Other than the financial assets described in note 19.3, 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 2019			31 March 2020	
Carrying amount *Restated* £000	Fair Value *Restated* £000		Carrying amount £000	Fair Value £000
		Financial liabilities		
		Borrowing		
(433,418)	(551,998)	Public Works Loans Board	**(537,144)**	**(633,784)**
(77,928)	(124,888)	Money Market loans	**(77,937)**	**(128,395)**
(9,024)	(9,024)	Other	**(9,408)**	**(8,826)**
(520,370)	**(685,910)**	**Total borrowing**	**(624,489)**	**(771,005)**
(138,908)	(226,567)	PFI / finance lease liabilities	**(123,209)**	**(190,065)**
(52,242)	(52,242)	Bank overdraft	**(17,718)**	**(17,718)**
(284,779)	(284,779)	Creditors (contractual)	**(297,682)**	**(297,682)**
(996,299)	**(1,249,498)**	**Total Financial Liabilities**	**(1,063,098)**	**(1,276,470)**
		Financial Assets		
		Investments		
91,679	91,470	Investments at amortised cost	**116,642**	**116,451**
91,679	**91,470**	**Total investments**	**116,642**	**116,451**
209,820	209,820	Cash and cash equivalents	**326,354**	**326,354**
99,487	99,487	Debtors (contractual)	**89,437**	**89,437**
400,986	**400,777**	**Total Financial Assets**	**532,433**	**532,242**

Notes: The comparative figures for the prior year have been restated on a basis consistent with 2019/20, to show:

- *The indicative costs of repaying the PFI / Finance Lease liabilities prematurely (previously, it had been assumed that the carrying amount and fair values were the same, but this should not have been the case).*
- *The bank overdraft related to the pooled position on the Council's bank accounts as a current liability (previously, the pooled bank balances were offset against cash and cash equivalents, but they should have been disclosed separately).*

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 (**£633.784m**) and the carrying amount (**£537.144m**) therefore measures the additional interest the Council will pay over the remaining term 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 **£308.997m** for the additional interest that would now not be paid. The exit price for the PWLB loans, including this penalty charge, would therefore be **£846.141m**.

- Whilst the 'fair value' measurements provide an indication of the cost of prematurely repaying existing PWLB and Money Market loans and Private Finance Initiative liabilities at 31 March 2020, the Council has a Capital Financing Requirement (see note 16 on page 78) well in excess of these loans, and so does not foresee the need to prematurely repay these loans and liabilities.

Investments and cash

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

Other

- The fair value of trade creditors, debtors and finance lease liabilities (excluding those related to private finance initiative schemes) is taken to be the invoiced or billed amount.

19.5 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 31 March 2020 of **0.05%** to **1.05%** for loans receivable, based on new lending rates for the remaining period of the deposits at that date.
  - The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- **Financial liabilities**
  - No early repayment is recognised.
  - Estimated ranges of interest rates at 31 March 2020 of **1.62%** to **2.64%** 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.

19.6 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 strategy, which 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 2019/20 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 2019/20 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 2019/20, this limit was **£50m** (2018/19: £50m).

No credit limits were exceeded during 2019/20 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.

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 (principal and interest) is as follows:

31 March 2019 (Restated)				Repayment period	31 March 2020			
PWLB £000	Money Market £000	Other £000	Total £000		PWLB £000	Money Market £000	Other £000	Total £000
17,491	3,158	2,093	22,742	Less than one year	34,066	3,162	3,787	41,015
17,491	**3,158**	**2,093**	**22,742**	**Short term borrowing**	**34,066**	**3,162**	**3,787**	**41,015**
32,139	3,162	1,685	36,986	Between 1 and 2 years	26,092	3,162	3,535	32,789
71,096	9,487	5,246	85,829	Between 2 - 5 years	83,970	9,487	2,086	95,543
114,828	15,812	-	130,640	Between 5 - 10 years	169,208	15,812	-	185,020
303,507	47,434	-	350,941	Between 10 - 25 years	349,831	47,434	-	397,265
265,713	47,434	-	313,147	Between 25 - 40 years	257,710	47,435	-	305,145
-	31,623	-	31,623	Between 40 - 50 years	-	31,623	-	31,623
-	101,417	-	101,417	Over 50 years	-	98,254	-	98,254
787,283	**256,369**	**6,931**	**1,050,583**	**Long term borrowing**	**886,811**	**253,207**	**5,621**	**1,145,639**
804,774	**259,527**	**9,024**	**1,073,325**	**Total borrowing**	**920,877**	**256,369**	**9,408**	**1,186,654**

Note: comparative figures for the prior year have been restated on a basis consistent with 2019/20 to include future payments of both principal and interest on existing financial liabilities. Previously, future payments of interest were excluded from the analysis, but they should have been included.

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 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 (2018/19: 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 at fixed or variable rates of interest.

If interest rates had been **1%** higher throughout 2019/20 (with all other variables held constant) the Council's net interest burden would have been lower than that shown in Note 19.2, as follows:

2018/19 £000		2019/20 £000
	Impact on the Comprehensive Income and Expenditure Statement	
339	Interest payable on variable rate borrowing	366
(1,077)	Interest receivable on variable rate investments	(1,347)
(738)	Net (gain) / loss	(981)

19.7 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
Loans to other local authorities	Investments guaranteed by statute – no credit risk.	No allowance required.
Deposits with banks and building societies	Deposits are restricted by the Council's Treasury Management Strategy (as noted above).	Expected credit losses are calculated by applying historical experience of default factors supplied by the Council's Treasury Management Advisor.
Other debtors	Debtors are not subject to internal credit rating; they are instead grouped by their credit risk characteristics 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.

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

	Credit risk rating			Gross carrying amount
	Low £000	Medium £000	High £000	£000
Deposits with banks and other financial institutions	413,436	-	-	413,436
Loans to businesses	1,451	-	-	1,451
	414,887	-	-	414,887
Other debtors (contractual) - not subject to credit rating				89,437
Total amount exposed to credit risk				504,324

The following movements in the impairment loss allowances for financial assets took place in 2019/20:

2018/19					2019/20			
Cash and cash equivalents £000	Investments at amortised cost £000	Other debtors (contractual) £000	Total £000		Cash and cash equivalents £000	Investments at amortised cost £000	Other debtors (contractual) £000	Total £000
2	114	13,989	14,105	Allowance at 1 April	24	33	14,063	14,120
(2)	(114)	-	(116)	Assets derecognised	-	(21)	-	(21)
24	33	74	131	Assets recognised	34	-	2,339	2,373
24	33	14,063	14,120	Allowance at 31 March	58	12	16,402	16,472

The total credit loss allowance for contractual debtors, at **£16.402m**, equates to **18%** of the debt outstanding at 31 March 2020 (31 March 2019: £14.063m, equating to 14% of the debt outstanding).

20. Inventories

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

2018/19				2019/20		
Consumable Stores £000	Property acquired or constructed for sale £000	Total £000		Consumable Stores £000	Property acquired or constructed for sale £000	Total £000
42	7,123	7,165	Balance as at 1 April	44	9,852	9,896
11	6,424	6,435	Purchases	17	2,688	2,705
(9)	(3,695)	(3,704)	Recognised as an expense in the year	(4)	(3,328)	(3,332)
44	9,852	9,896	Balance as at 31 March	57	9,212	9,269

21. Debtors

The following table analyses short and long-term debtors:

31 March 2019				31 March 2020		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
82,843	283	83,126	Trade debtors	74,925	679	75,604
10,442	-	10,442	Recoverable Value Added Tax	9,462	-	9,462
			Council Tax and Non Domestic Rates			
11,536	-	11,536	Billing authorities	10,752	-	10,752
43,064	-	43,064	Taxpayers	49,194	-	49,194
23,190	400	23,590	Prepayments	19,619	425	20,044
7,006	-	7,006	Grants and accrued income	4,436	-	4,436
612	16,706	17,318	Other debtors	241	14,838	15,079
178,693	17,389	196,082		168,629	15,942	184,571
			Allowance for doubtful debts			
(14,063)	-	(14,063)	Sundry debtors	(16,402)	-	(16,402)
(18,539)	-	(18,539)	Council Tax and Non Domestic Rates	(22,978)	-	(22,978)
146,091	17,389	163,480	Total	129,249	15,942	145,191

22. Cash and cash equivalents

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

1 April 2018 (restated)		31 March 2019 (restated)			31 March 2020	
Assets £000	Liabilities £000	Assets £000	Liabilities £000		Assets £000	Liabilities £000
				Amounts that form an integral part of the Council's cash management		
5,618	-	43,997	-	Cash repayable on demand	104,078	-
29,022	-	125,162	-	Cash equivalents	183,901	-
-	(33,986)	-	(52,327)	Bank overdraft	-	(17,803)
-	93	-	85	Petty cash balances	-	85
34,640	**(33,893)**	**169,159**	**(52,242)**		**287,979**	**(17,718)**
39,820	-	40,661	-	**Cash held by schools**	38,375	-
74,460	**(33,893)**	**209,820**	**(52,242)**	**Total of cash and cash equivalents**	**326,354**	**(17,718)**

Note: The opening and closing comparative figures for the prior year have been restated on a basis consistent with 2019/20, to show the bank overdraft related to the pooled position on the Council's bank accounts as a current liability. Previously, these balances were offset against cash and cash equivalents but should have been disclosed separately.

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.

23. Creditors

The following table analyses short and long-term creditors:

31 March 2019				31 March 2020		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
162,685	987	**163,672**	**Trade creditors**	156,504	1,096	**157,600**
84,822	-	**84,822**	**Cash held on behalf of partnerships**	104,988	-	**104,988**
			Council Tax and Non Domestic Rates			
6,429	-	**6,429**	Billing authorities	7,742	-	**7,742**
13,188	-	**13,188**	Taxpayers	14,249	-	**14,249**
22,410	-	**22,410**	**Employee related creditors**	22,276	-	**22,276**
13,749	-	**13,749**	**Other creditors**	12,699	-	**12,699**
7,654	126	**7,780**	**Receipts in advance**	5,939	119	**6,058**
310,937	**1,113**	**312,050**	**Total**	**324,397**	**1,215**	**325,612**

24. Grant receipts in advance

Where grants or contributions have been received, but the conditions attached to the funding are not yet 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 2019					31st March 2020			
Revenue		Capital			Revenue		Capital	
Short term £000	Long term £000	Short term £000	Long term £000		Short term £000	Long term £000	Short term £000	Long term £000
				Department for Education and related				
752	-	542	-	Department for Education grants	653	-	5,781	-
754	-	-	-	Education and Skills Funding Agency	406	-	-	-
1,506	**-**	**542**	**-**		**1,059**	**-**	**5,781**	**-**
				Ministry of Housing, Communities & L. Govnt				
-	-			Business Rates Relief grant	12,133	-	-	
3,216	-	-	-	Other	8,654	-	-	-
3,216	**-**	**-**	**-**		**20,787**	**-**	**-**	**-**
				Other grants				
80	-	17,388	-	Department for Transport	388	-	23,195	-
486	-	-	-	Department of Health and Social Care	710	-	-	-
393	-	3,398	-	Other	553	-	4,062	-
959	**-**	**20,786**	**-**		**1,651**	**-**	**27,257**	**-**
5,681	**-**	**21,328**	**-**	**Total of grant receipts in advance**	**23,497**	**-**	**33,038**	**-**
8,589	-	53,747	-	**Developer contributions (S106)**	8,197	1,956	36,143	25,922
14,270	**-**	**75,075**	**-**	**Total**	**31,694**	**1,956**	**69,181**	**25,922**

Notes:

- *Whilst prior year comparative figures are consistent overall with the figures presented in the 2018/19 Statement of Accounts, comparative figures have been analysed on a basis consistent with 2019/20.*
- *A review of the developer contributions held as receipts in advance in 2019/20 has identified that a significant proportion should be categorised as long term, as the Council does not expect to satisfy the conditions attached to the funding during the forthcoming financial year.*

25. Provisions and contingencies

25.1 Provisions

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

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

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

	Insurance Provision £000	Landfill aftercare £000	Non-domestic rating appeals £000	Other provisions £000	Total £000
Current provisions					
Balance at 31st March 2019	(5,000)	(421)	(4,722)	(1,404)	**(11,547)**
Amounts arising	-	-	(2,200)	(1,199)	**(3,399)**
Provisions reversed	-	-	-	261	**261**
Provisions utilised	4,154	437	1,030	563	**6,184**
Unwinding of discount	-	(11)	-	-	**(11)**
Amounts reclassified as current	(4,154)	(430)	-	-	**(4,584)**
Balance at 31st March 2020	**(5,000)**	**(425)**	**(5,892)**	**(1,779)**	**(13,096)**
Non-current provisions					
Balance at 31st March 2019	(20,567)	(14,798)	-	-	**(35,365)**
Amounts arising	(3,354)	-	-	(19)	**(3,373)**
Provisions reversed	-	399	-	-	**399**
Provisions utilised	-	-	-	-	**-**
Amounts reclassified as current	4,154	430	-	-	**4,584**
Balance at 31st March 2020	**(19,767)**	**(13,969)**	**-**	**(19)**	**(33,755)**
Total current and non-current provisions					
31st March 2019	*(25,567)*	*(15,219)*	*(4,722)*	*(1,404)*	***(46,912)***
31st March 2020	*(24,767)*	*(14,394)*	*(5,892)*	*(1,798)*	***(46,851)***

An explanation of each provision is as follows:

Provision	Purpose
Insurance	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. MMI insured the Council's liability risks from 1983, until they ceased trading in 1992. Since ceasing trading, MMI dealt 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. This Scheme was put in place to avoid winding up the company if a solvent run-off was not achievable. MMI has been a party to a series of test cases, known collectively as the Employer Liability (EL) Trigger Litigation, designed to create certainty as to which insurers should respond to long tail occupational disease claims. Because of a Supreme Court judgement in 2011 MMI concluded that a solvent run-off without triggering the Scheme was unlikely. The Scheme of Arrangements was triggered, and therefore came into effect, on 13th November 2012. As a result, the Council was required to make an initial levy payment of **£1.149m** to the Scheme Administrator in 2014/15, equivalent to **15%** of all claims it had received settlement for since 1993. Thereafter, the Council had to meet **15%** of the cost of

Provision	Purpose
	any subsequent claims. With effect from 1 April 2016, the levy increased to **25%**. Therefore, a second levy payment of **£767,000** was made in 2017/18, equivalent to a further **10%** of all claims for which it has received settlement since 1993 to date. Since making this second levy payment, the Council has been required to meet **25%** of any subsequent claims. The Insurance Provision includes an allowance for this liability. The **25%** levy may be enough to enable MMI to continue its run-off for several years. However, because of the latent nature of many claims, it is not possible to guarantee that the current levy percentage of **25%** will remain adequate. The claims position has stabilised in recent years, and MMI are not anticipating a further levy in the short term. However, it is possible that the levy will ultimately be closer to **40%**. Allowance has been made for this in the Insurance Reserve (see Note 8, which commences on page 65).
Landfill aftercare	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. 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.
Non-domestic rating appeals	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.
Other	Various provisions have been established in respect of legal claims and constructive obligations.

25.2 Contingencies

As detailed in Note 18, on page 82, 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 UBB Waste (Essex) Ltd regarding the delay in achieving services commencement. Matters where no agreement had been reached were referred to the Court for consideration and to determine an outcome. On **18 June 2020** The High Court ruled in favour of the Council. At a consequential hearing on **13** and **14 July**, the Court awarded the Council damages of **£9.846m**.

These damages have not yet been paid to the Council and on **27 July** the Council were informed that UBB Waste (Essex) Ltd had entered into administrative receivership. The Council is of the view that the payment of the outstanding sums remains contingent.

At the consequential hearing on 13 and 14 July the Court awarded the Council costs on an indemnity basis or as agreed by the parties.

It is not possible to provide an indication of any additional costs that may be incurred as a result of any future court proceedings.

26. Usable reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement, on page 32, with further analysis provided in Note 7, which commences on page 62.

27. Unusable reserves

27.1 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 27.2 to 27.8 explain the purpose of the most significant of these unusable reserves and the movements in these reserves during the year.

27.2 Revaluation Reserve

This reserve records the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was established. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

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

2018/19 £000		2019/20 £000
(616,624)	**Balance as at 1 April**	**(601,983)**
(105,271)	Revaluation of non current assets (increases)	**(135,013)**
13,278	Revaluation of non current assets (subsequent decreases)	**51,095**
(91,993)	**Surplus on revaluations**	**(83,918)**
13,909	Depreciation on revaluation gains	**14,555**
92,725	Accumulated gains on assets sold or scrapped	**36,717**
106,634	**Amounts written off to the Capital Adjustment Account**	**51,272**
(601,983)	**Balance as at 31 March**	**(634,629)**

27.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The following table provides an analysis of the movements on the Capital Adjustment Account.

2018/19 £000		2019/20 £000
(1,316,405)	**Balance as at 1 April**	**(1,208,599)**
	Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
79,231	Depreciation	**78,170**
24,045	Impairment of non-current assets	**53,668**
-	Impairment of assets held for sale	**6**
69,862	Revenue expenditure financed from capital under statute	**74,640**
224,485	Cost / value of assets disposed of during the year	**72,931**
397,623		**279,415**
	Adjusting amounts written out of the Revaluation Reserve	
(13,909)	Difference between fair value and historical cost depreciation	**(14,555)**
(92,725)	Revaluation gains outstanding for assets upon disposal	**(36,717)**
(106,634)		**(51,272)**
290,989	**Net written out amount of the cost of non current assets consumed in the year**	**228,143**
	Capital financing applied in the year	
(5,038)	Revenue reserves applied	**-**
(33,116)	Statutory provision for the financing of capital investment	**(37,122)**
(10,283)	Capital receipts applied	**(19,580)**
	Capital grants and contributions applied to finance:	
(71,536)	Capital Expenditure	**(80,235)**
(71,064)	Revenue expenditure funded from capital	**(28,781)**
(1,290)	Application of grants from the Capital Grants Unapplied Account	**(2,962)**
(192,327)		**(168,680)**
1,049	**Repayment of loans awarded for capital purposes**	**19**
8,095	**Movement in market value of investment properties**	**(1,269)**
(1,208,599)	**Balance as at 31 March**	**(1,150,386)**

27.4 Financial Instruments Adjustment Account

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

The Council uses the Account to manage:

- Premiums paid on the early redemption of loans, such that the expense is recognised in the General Fund over the unexpired term that was outstanding on the loans when they were redeemed; 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.

2018/19				2019/20		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
6,567	(3,506)	3,061	**Balance as at 1 April**	6,345	(3,342)	3,003
-	-	-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	9,767	-	9,767
(127)	18	(109)	Amortisation of premiums / discounts to the General Fund	(129)	19	(110)
(95)	146	51	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expendiure Statement and amounts payable / receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(258)	50	(208)
6,345	(3,342)	3,003	**Balance as at 31 March**	15,725	(3,273)	12,452

As noted on page 81, the Council elected to terminate its Tendring Primary Schools Public Private Partnership (PPP) contract early, in December 2019. An early termination premium of **£9.767m** was payable to the contractor to extinguish the Council's liability on the effective date of termination. This premium was carried into the Financial Instruments Adjustment Account and will be charged to the General Fund over a period commensurate with the unexpired term of the contract on the date of termination.

27.5 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.

2018/19 £000		2019/20 £000
-	**Balance as at 1 April**	**(1,030)**
(861)	Reclassification of financial assets	-
(861)	**Restated balance at 1 April**	**(1,030)**
(169)	Upward revaluation of investments	-
-	Downward revaluation of investments	**394**
(1,030)	**Balance as at 31 March**	**(636)**

The ability to reverse these gains / losses out of the General Fund Balance applies to the 2019/20 accounts and ceases on 31 March 2023.

27.6 Pension Reserve

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require 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.

2018/19 LGPS £000	2018/19 Teachers £000	2018/19 Total £000		2019/20 LGPS £000	2019/20 Teachers £000	2019/20 Total £000
1,053,563	32,114	1,085,677	**Balance as at 1 April**	962,835	29,042	991,877
			Pension Reserve appropriation to / (from) the General Fund for:			
118,953	707	119,660	Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the Provision of Services in the Comprehensive Income Services in the Comprehensive Income and Expenditure Statement	113,228	582	113,810
(53,662)	(2,782)	(56,444)	Council contributions to the schemes	(54,036)	(2,701)	(56,737)
65,291	**(2,075)**	**63,216**	**Total appropriation from Pension Reserve**	**59,192**	**(2,119)**	**57,073**
(156,019)	(997)	(157,016)	Remeasurements of the net pension liability	(159,928)	(921)	(160,849)
962,835	**29,042**	**991,877**	**Balance as at 31 March**	**862,099**	**26,002**	**888,101**

27.7 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.

2018/19 Council Tax £000	2018/19 Non-domestic rates £000	2018/19 Total £000		2019/20 Council Tax £000	2019/20 Non-domestic rates £000	2019/20 Total £000
(14,527)	(1,169)	(15,696)	**Balance at 1 April**	(11,045)	(678)	(11,723)
3,482	491	3,973	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	1,151	1,487	2,638
(11,045)	**(678)**	**(11,723)**	**Balance as at 31 March**	**(9,894)**	**809**	**(9,085)**

27.8 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 31 March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2018/19 £000		2019/20 £000
12,884	**Balance as at 1 April**	**10,533**
(12,884)	Settlement or cancellation of accrual made at the end of the preceding year	**(10,533)**
10,533	Amounts accrued for at the end of the current year	**11,409**
(2,351)	Amount by which officer remuneration charged on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	**876**
10,533	**Balance as at 31 March**	**11,409**

28. Cash Flows from operating, investing and financing activities

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

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

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

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

2018/19 *Restated* £000		2019/20 £000
	Cash flows from operating activities	
	Cash inflows	
(689,434)	Taxation	**(724,058)**
(883,234)	Grants	**(919,570)**
(301,981)	Sales of goods and rendering of services	**(291,036)**
(4,049)	Interest received	**(3,353)**
-	Dividends received	**(334)**
(1,878,698)		**(1,938,351)**
	Cash outflows	
455,157	Cash paid to and on behalf of employees	**449,632**
39,772	Interest paid	**48,050**
1,210,104	Cash paid to suppliers of goods and services	**1,227,281**
69,862	Revenue expenditure funded from capital under statute *(see footnote (i) below)*	**74,640**
109,954	Other payments for operating activities	**111,521**
1,884,849		**1,911,124**
6,151	**Net (inflow) / outflow of cash from operating activities**	**(27,227)**
	Cash flows from investing activities	
	Cash inflows	
(10,283)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(29,161)**
(454,468)	Proceeds from short and long term investments *(see footnote (ii) below)*	**(523,713)**
(177,436)	Other receipts from investing activities	**(130,072)**
(642,187)		**(682,946)**
	Cash outflows	
175,522	Purchase of property, plant and equipment, investment property and intangible assets	**115,344**
333,869	Purchase of short and long term investments *(see footnote (ii) below)*	**548,300**
1,091	Other payments for investing activities *(see footnote (i) below)*	**1,986**
510,482		**665,630**
(131,705)	**Net inflow of cash from investing activities**	**(17,316)**
	Cash flows generated from financing activities	
	Cash inflows	
(1,702)	Cash receipts of short and long term borrowing	**(107,194)**
(316)	Other receipts from financing activities	**(20,166)**
(2,018)		**(127,360)**
	Cash outflows	
8,169	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	**17,770**
2,390	Repayment of short and long term borrowing	**3,075**
10,559		**20,845**
8,541	**Net (inflow) / outflow of cash from financing activities**	**(106,515)**
(117,013)	**Net increase in cash and cash equivalents**	**(151,058)**

Notes: The comparative figures for 2018/19 have been restated, on a basis comparable with 2019/20, for the following reasons:

(i) *Revenue expenditure funded from capital under statute of £69.862m was previously categorised as a cash flow arising from investing activities, but it should have been categorised as a cash flow arising from operating activities.*

(ii) *The proceeds and purchase of investments were presented on the basis of the net movement in balances during the year, but should have been presented to show the turnover in investments; the restatement had the effect of increasing the cash inflows and outflows by £333.5m respectively.*

29. Changes in liabilities arising from financing activities

2018/19					2019/20			
Long term borrowing £000	Short term borrowing £000	Lease liabilities £000	Total £000		Long term borrowing £000	Short term borrowing £000	Lease liabilities £000	Total £000
(514,914)	(7,382)	(146,973)	**(669,269)**	Balance at 1 April	(511,798)	(8,572)	(138,908)	**(659,278)**
1,878	(1,190)	8,169	**8,857**	Cash flows	(87,143)	(16,976)	17,770	**(86,349)**
1,238	-	(104)	**1,134**	Non cash adjustments	-	-	(2,071)	**(2,071)**
(511,798)	**(8,572)**	**(138,908)**	**(659,278)**	**Balance at 31st March**	**(598,941)**	**(25,548)**	**(123,209)**	**(747,698)**

30. Termination benefits

The Council is undertaking a major transformation programme to improve core services, meet difficult budget pressures in challenging times and deliver better customer services. This 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:

2018/19 £000		2019/20 £000
138	Childrens and Families	**85**
758	Customer, Communities, Culture and Corporate	**122**
279	Economic Development	**236**
2,077	Education and Skills	**2,189**
194	Environment and Climate Change Action	**50**
-	Finance, Property and Housing	**3**
626	Health and Adult Social Care	**86**
-	Infrastructure	**15**
165	Leader	**-**
120	Performance, Business Planning and Partnerships	**-**
	Recharged Strategic Support Services	
1,072	Customer, Communities, Culture and Corporate	**618**
288	Finance, Property and Housing	**469**
222	Leader	**30**
-	Performance, Business Planning and Partnerships	**189**
5,939	**Total**	**4,092**

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 31 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:

2018/19				Value of exit packages	2019/20			
No. packages agreed in the year			Total cost of packages £000		*No. packages agreed in the year*			Total cost of packages £000
Compulsory	*Other*	*Total*			*Compulsory*	*Other*	*Total*	
87	*72*	*159*	**1,194**	Less than £20,000	*83*	*64*	*147*	**1,071**
24	*25*	*49*	**1,335**	£20,000 to £39,999	*13*	*36*	*49*	**1,392**
17	*9*	*26*	**1,326**	£40,000 to £59,999	*7*	*4*	*11*	**537**
5	*6*	*11*	**811**	£60,000 to £99,999	*4*	*4*	*8*	**609**
3	*3*	*6*	**771**	£100,000 to £199,999	*3*	*2*	*5*	**626**
136	*115*	*251*	**5,437**	**Total no. of agreed packages**	*110*	*110*	*220*	**4,235**
			502	**Other termination benefits**				**(143)**
			5,939					**4,092**

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

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

31. Pension Schemes accounted for as Defined Contribution Schemes

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

- ### Teachers' Pension Scheme

  Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Teachers' pension scheme has in excess of **11,100** 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 approximately **8,500** 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.

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

2018/19				2019/20		
Teachers £000	NHS £000	Total £000		Teachers £000	NHS £000	Total £000
22,818	92	22,910	Employer's contributions	27,476	127	27,603
12,547	80	12,627	Employee contributions	12,002	96	12,098
35,365	172	35,537	Total	39,478	223	39,701

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	
	2018/19	2019/20	2018/19	2019/20
Employer's contribution rate	16.48%	16.48%, rising to 23.68% from Sept 2019	14.38%	16.88%
Employee contribution rate	7.4% to 11.7%	7.4% to 11.7%	5.0% to 14.5%	5.0% to 14.5%

There were no contributions remaining payable as at 31 March 2020 (31 March 2019: Nil).

The employer's contributions due to be paid in 2020/21 are estimated to be **£25.5m** for the teachers' pension scheme and **£172,000** 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 32 below.

32. Defined Benefit Pension Schemes

32.1 Participation in Pension Schemes

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

The Council participates in two schemes:

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

  The LGPS is a defined benefit statutory scheme, 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 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 Funding Strategy Statement.

  Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at **31 March 2022** and will set contributions for the period from **1st April 2023** to **31 March 2026**. 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.

- **Discretionary post-retirement benefits upon early retirement in relation to the teachers' pension scheme**

  This is an unfunded defined benefits arrangement, under which the liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash must be generated to meet the actual pension payments as they eventually fall due.

32.2 Transactions relating to post-employment benefits

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

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

2018/19 LGPS £000	2018/19 Teachers £000	2018/19 Total £000		2019/20 LGPS £000	2019/20 Teachers £000	2019/20 Total £000
			Comprehensive Income and Expenditure Statement			
			Cost of Services			
85,989	-	85,989	Current service cost	90,828	-	90,828
27,791	-	27,791	Past service cost	2,877	-	2,877
(21,722)	-	(21,722)	(Gain) / loss on settlement	(3,723)	-	(3,723)
92,058	-	92,058		89,982	-	89,982
			Financing and Investment Income and Expenditure			
26,895	707	27,602	Net interest expense	23,246	582	23,828
118,953	707	119,660	**Total charged to the Surplus / Deficit on Provision of Services**	113,228	582	113,810
			Re-measurements of the net pensions liability			
(121,830)	-	(121,830)	Return on scheme assets	172,085	-	172,085
			Actuarial (gains) / losses arising from changes in:			
145,108	820	145,928	Financial assumptions	(298,174)	(1,412)	(299,586)
(179,297)	(1,817)	(181,114)	Demographic assumptions	(30,642)	(161)	(30,803)
-	-	-	Experience (gain) / loss on defined benefit obligation	43,130	652	43,782
-	-	-	Other	(46,327)	-	(46,327)
(156,019)	(997)	(157,016)	**Total charged to Other Comprehensive Income and Expenditure**	(159,928)	(921)	(160,849)
(37,066)	(290)	(37,356)	**Total charged to Comprehensive Income and Expenditure Statement**	(46,700)	(339)	(47,039)
			Movement in Reserves Statement			
(118,953)	(707)	(119,660)	Reversal of net charges made to the Surplus / Deficit on the Provision of Services	(113,228)	(582)	(113,810)
53,662	2,782	56,444	Actual amount charged against the General Fund Balance for pensions in the year	54,036	2,701	56,737
(65,291)	2,075	(63,216)		(59,192)	2,119	(57,073)

32.3 Pensions assets and liabilities recognised in the Balance Sheet

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

2018/19 LGPS £000	2018/19 Teachers £000	2018/19 Total £000		2019/20 LGPS £000	2019/20 Teachers £000	2019/20 Total £000
3,256,736	29,042	3,285,778	Present value of the defined benefit obligation	3,050,857	26,002	3,076,859
(2,293,901)	-	(2,293,901)	Fair value of plan assets	(2,188,758)	-	(2,188,758)
962,835	29,042	991,877	**Net liablity arising from defined benefit obligations**	862,099	26,002	888,101

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 **£888.101m** (2018/19: £991.877m) 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:

2018/19 LGPS £000	2018/19 Teachers £000	2018/19 Total £000		2019/20 LGPS £000	2019/20 Teachers £000	2019/20 Total £000
3,224,588	32,114	3,256,702	**Balance as at 1 April**	3,256,736	29,042	3,285,778
85,989	-	85,989	Current service cost	90,828	-	90,828
80,707	707	81,414	Interest cost	77,131	582	77,713
15,857	-	15,857	Contributions by scheme participants	17,110	-	17,110
			Remeasurement (gains)/losses:			
(179,297)	(1,817)	(181,114)	Actuarial (gains) / losses arising from changes in demographic assumptions	(30,642)	(161)	(30,803)
145,108	820	145,928	Actuarial (gains) / losses arising from changes in financial assumptions	(298,174)	(1,412)	(299,586)
-	-	-	Other	43,130	652	43,782
27,791	-	27,791	Past service costs	2,877	-	2,877
(92,701)	(2,782)	(95,483)	Benefits paid	(100,568)	(2,701)	(103,269)
(51,306)	-	(51,306)	Liabilities extinguished on settlements	(7,571)	-	(7,571)
3,256,736	**29,042**	**3,285,778**	**Balance as at 31 March**	**3,050,857**	**26,002**	**3,076,859**

Scheme Assets

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

2018/19 LGPS £000	2018/19 Teachers £000	2018/19 Total £000		2019/20 LGPS £000	2019/20 Teachers £000	2019/20 Total £000
2,171,025	-	2,171,025	**Balance as at 1 April**	2,293,901	-	2,293,901
53,812	-	53,812	Interest income	53,885	-	53,885
			Remeasurement gain/(loss)			
121,830	-	121,830	Return on plan assets (excl. amount incl in net interest expense)	(172,085)	-	(172,085)
-	-	-	Other	46,327	-	46,327
53,662	2,782	56,444	Contributions by the Council	54,036	2,701	56,737
15,857	-	15,857	Contributions from employees into the scheme	17,110	-	17,110
(92,701)	(2,782)	(95,483)	Benefits paid	(100,568)	(2,701)	(103,269)
(29,584)	-	(29,584)	Amounts made for settlements	(3,848)	-	(3,848)
2,293,901	**-**	**2,293,901**	**Balance as at 31 March**	**2,188,758**	**-**	**2,188,758**

Local Government Pension Scheme assets comprised:

31 March 2019 £000	31 March 2019 %		31 March 2020 £000	31 March 2020 %
1,428,158	*62.3%*	Equities	**1,281,161**	***58.5%***
121,750	*5.3%*	Gilts	**94,339**	***4.3%***
134,066	*5.8%*	Other bonds	**132,615**	***6.1%***
203,961	*8.9%*	Property	**196,822**	***9.0%***
60,410	*2.6%*	Cash and cash equivalents	**90,977**	***4.2%***
223,663	*9.8%*	Alternative assets	**252,114**	***11.5%***
121,893	*5.3%*	Other managed funds	**140,730**	***6.4%***
2,293,901	***100.0%***	**Total assets**	**2,188,758**	***100.0%***

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

31 March 2019 (restated)						31 March 2020				
UK		Overseas		Total		UK		Overseas		Total
Quoted	Unquoted	Quoted	Unquoted			Quoted	Unquoted	Quoted	Unquoted	
4.5%	-	53.2%	4.6%	*62.3%*	Equities	4.2%	-	49.2%	5.1%	*58.5%*
5.3%	-	-	-	*5.3%*	Gilts	4.3%	-	-	-	*4.3%*
5.8%	-	-	-	*5.8%*	Other bonds	6.1%	-	-	-	*6.1%*
3.3%	5.6%	-	-	*8.9%*	Property	2.5%	6.5%	-	-	*9.0%*
-	2.6%	-	-	*2.6%*	Cash and cash equivalents	-	4.2%	-	-	*4.2%*
-	0.7%	-	9.1%	*9.8%*	Alternative assets	-	0.7%	-	10.8%	*11.5%*
-	5.3%	-	-	*5.3%*	Other managed funds	-	6.4%	-	-	*6.4%*
18.9%	**14.2%**	**53.2%**	**13.7%**	***100.0%***	**Total assets**	**17.1%**	**17.8%**	**49.2%**	**15.9%**	***100.0%***

Note: the comparative figures for the prior year have been restated to show 9.1% of alternative assets as overseas unquoted (previously these shown incorrectly as UK unquoted assets).

32.4 Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by **Barnett Waddingham LLP**, an independent firm of actuaries. The liabilities have been estimated, based upon the results of the valuation as at **31 March 2019** which was carried out for funding purposes.

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

Assumptions	2018/19	2019/20
▪ **Rate of inflation**		
- RPI	3.4%	2.7%
- CPI	2.4%	1.9%

Assumptions	2018/19	2019/20
▪ **Rate of increase in salaries**	3.9%	2.9%
▪ **Rate of increase in pensions**	2.4%	1.9%
▪ **Discount rate**	2.4%	2.35%
▪ **Mortality assumptions for members retiring in normal health:**		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	22.9 years	23.2 years
▪ Female	25.4 years	25.2 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	21.3 years	21.8 years
▪ Female	23.6 years	23.7 years
▪ **Expected rate of return on assets in the scheme**	8%	-5%

The actuarial assumptions used in the calculation of the liabilities for Teachers' additional unfunded pensions were those shown on page 111 for the Local Government Pension Scheme, with the following exceptions:

Assumptions	2018/19	2019/20
▪ **Rate of inflation**		
- RPI	3.5%	2.95%
- CPI	2.5%	1.95%
▪ **Rate of increase in pensions**	2.5%	1.95%
▪ **Discount rate**	2.1%	2.25%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions used.

Sensitivity analysis has been undertaken, based on reasonably possible changes of the assumptions occurring at the end of the reporting period. This assumes, for each change, that the assumption analysed changes, whilst all the other assumptions remain constant. In practice, changes in some of the assumptions may be inter-related.

The estimations in the sensitivity analysis have followed the accounting policies for the scheme (i.e. on an actuarial basis using the projected unit credit method).

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	2,992,566	3,050,857	3,110,343
Projected Service Cost	82,672	84,878	87,145
Adjustment to long term salary increase	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	3,054,792	3,050,857	3,046,957
Projected Service Cost	84,919	84,878	84,836
Adjustment to pension increases and deferred revaluation	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	3,106,615	3,050,857	2,996,154
Projected Service Cost	87,111	84,878	82,701
Adjustment to mortality age rating assumption	**+ 1 year**	**None**	**- 1 year**
Present value of total obligation	3,175,455	3,050,857	2,931,481
Projected Service Cost	87,471	84,878	82,361

Unfunded Teachers' Pensions	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	25,807	26,002	26,199
Adjustment to pension increases and deferred revaluation	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	26,199	26,002	25,806
Adjustment to life expectancy assumptions	**+ 1 year**	**None**	**- 1 year**
Present value of total obligation	27,108	26,002	24,941

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

32.5 Impact on the Council’s Cash Flows

The objectives of the LGPS are to keep employers’ contributions at as constant a rate as possible. There are no minimum funding requirements in the LGPS, but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The next triennial valuation is being carried out as at **31 March 2022** and will set the contributions for the period 1 April 2023 to 31 March 2026.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is **£55.850m**. 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 **£2.701m** as at 31 March 2020.

The weighted average duration of the pension obligation for the Local Government Pension Scheme members is **20** years. For the Teachers additional unfunded pensions, it is **8** years.

33. Audit costs

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

2018/19 £000		2019/20 £000
	Audit fees payable to the appointed auditor	
135	External audit services carried out by appointed auditor	138
13	Other services carried out by appointed auditor	12
148	**Net total**	**150**

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.

34. Members' allowances and expenses

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

2018/19 £000		2019/20 £000
	Members allowances	
899	Basic allowances	896
627	Special responsibility allowances	620
1,526		**1,516**
65	**Members expenses**	60
1,591		**1,576**

35. Pooled budgets

35.1 Better Care Fund

The Better Care Fund aims to 'drive closer integration and improve outcomes for patients and service users and carers'. It is comprised of 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 2019/20 were as follows:

2018/19								2019/20						
Basildon & Brentwood £000	Castle Point & Rochford £000	Mid Essex £000	North East Essex £000	West Essex £000	Central Pool £000	Total £000		Basildon & Brentwood £000	Castle Point & Rochford £000	Mid Essex £000	North East Essex £000	West Essex £000	Central Pool £000	Total £000
							Contributions							
							Clinical Commissioning Groups							
(16,875)	-	-	-	-	-	(16,875)	Basildon and Brentwood	(17,707)	-	-	-	-	-	(17,707)
-	(11,512)	-	-	-	-	(11,512)	Castle Point and Rochford	-	(11,908)	-	-	-	-	(11,908)
-	-	(23,386)	-	-	-	(23,386)	Mid Essex	-	-	(24,330)	-	-	-	(24,330)
-	-	-	(23,200)	-	-	(23,200)	North East Essex	-	-	-	(23,495)	-	-	(23,495)
-	-	-	-	(19,562)	-	(19,562)	West Essex	-	-	-	-	(20,968)	-	(20,968)
-	-	-	-	-	(43,147)	(43,147)	Essex County Council	-	-	-	-	-	(51,024)	(51,024)
(16,875)	**(11,512)**	**(23,386)**	**(23,200)**	**(19,562)**	**(43,147)**	**(137,682)**	**Total Contributions**	**(17,707)**	**(11,908)**	**(24,330)**	**(23,495)**	**(20,968)**	**(51,024)**	**(149,432)**
							Expenditure							
							Clinical Commissioning Groups							
10,286	-	-	-	-	-	10,286	Basildon and Brentwood	10,812	-	-	-	-	-	10,812
-	6,868	-	-	-	-	6,868	Castle Point and Rochford	-	7,097	-	-	-	-	7,097
-	-	13,726	-	-	-	13,726	Mid Essex	-	-	14,409	-	-	-	14,409
-	-	-	13,793	-	-	13,793	North East Essex	-	-	-	14,612	-	-	14,612
-	-	-	-	12,129	-	12,129	West Essex	-	-	-	-	13,140	-	13,140
6,589	4,644	9,660	9,407	7,433	43,147	80,880	Essex County Council	6,895	4,811	9,921	8,883	7,828	51,024	89,362
16,875	**11,512**	**23,386**	**23,200**	**19,562**	**43,147**	**137,682**	**Total Expenditure**	**17,707**	**11,908**	**24,330**	**23,495**	**20,968**	**51,024**	**149,432**
-	**-**	**-**	**-**	**-**	**-**	**-**	**Net (surplus) / deficit**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

35.2 Equipment Pool

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

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

The contributions and expenses of the Pool for 2019/20 were as follows:

2018/19				2019/20		
Contributions £000	Expenditure £000	Net (surplus) / deficit £000		Contributions £000	Expenditure £000	Net (surplus) / deficit £000
			Local authorities			
(8,653)	8,653	-	Essex County Council	(9,013)	9,013	-
(578)	578	-	Thurrock Council	(1,261)	1,261	-
			Clinical Commissioning Groups			
(2,496)	2,496	-	Mid Essex	(997)	997	-
			NHS Trusts			
(2,192)	2,192	-	Colchester University Hospital Foundation Trust	(848)	848	-
(54)	54	-	Mid Essex Hospital Service NHS Trust	(61)	61	-
(316)	316	-	South Essex Partnership University NHS Foundation Trust	(318)	318	-
(1,744)	1,744	-	North East London Foundation Trust	(708)	708	-
(16,033)	**16,033**	**-**	**Total**	**(13,206)**	**13,206**	**-**

35.3 Transforming Care Partnership Pool

The Council entered into a pooled budget arrangement with various local authority and NHS partners in 2017/18, with the aim of ensuring that people with learning disabilities, autism or both 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.

The contributions and expenses of the Pool for 2019/20 were as follows:

2018/19				2019/20		
Contributions £000	Expenditure £000	Net (surplus) / deficit £000		Contributions £000	Expenditure £000	Net (surplus) / deficit £000
			Local authorities			
(152)	1,344	**1,192**	Essex County Council	(334)	2,825	**2,491**
(31)	484	**453**	Southend Council	(83)	226	**143**
-	-	**-**	Thurrock Council	(83)	67	**(16)**
			Clinical Commissioning Groups			
(36)	86	**50**	Basildon and Brentwood	(415)	537	**122**
(1,716)	250	**(1,466)**	Castle Point and Rochford	(1,911)	461	**(1,450)**
(466)	468	**2**	Mid Essex	(1,031)	680	**(351)**
(521)	534	**13**	North East Essex	(1,297)	888	**(409)**
(659)	405	**(254)**	Southend	(613)	397	**(216)**
-	-	**-**	Thurrock	(248)	215	**(33)**
(381)	391	**10**	West Essex	(856)	575	**(281)**
(3,962)	**3,962**	**-**	**Total**	**(6,871)**	**6,871**	**-**

36. Officers' remuneration

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

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

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

2018/19			Remuneration band			2019/20		
Non-schools	Schools	Total				Non-schools	Schools	Total
178	103	281	£50,000	to	£54,999	161	116	277
102	87	189	£55,000	to	£59,999	143	77	220
56	64	120	£60,000	to	£64,999	73	62	135
42	51	93	£65,000	to	£69,999	32	54	86
33	30	63	£70,000	to	£74,999	23	28	51
25	7	32	£75,000	to	£79,999	48	16	64
21	8	29	£80,000	to	£84,999	23	10	33
16	5	21	£85,000	to	£89,999	13	5	18
6	2	8	£90,000	to	£94,999	6	4	10
4	1	5	£95,000	to	£99,999	8	1	9
1	3	4	£100,000	to	£104,999	3	-	3
5	-	5	£105,000	to	£109,999	2	2	4
12	-	12	£110,000	to	£114,999	13	-	13
2	1	3	£115,000	to	£119,999	4	-	4
3	-	3	£120,000	to	£124,999	3	-	3
2	-	2	£125,000	to	£129,999	1	-	1
-	-	-	£130,000	to	£134,999	1	-	1
-	-	-	£135,000	to	£139,999	-	-	-
1	-	1	£140,000	to	£144,999	2	-	2
-	-	-	£145,000	to	£149,999	1	-	1
509	362	871	Total			560	375	935

Notes: Senior officers whose individual remuneration is disclosed in note 37 (page 120) are excluded from the remuneration bandings shown in the above analysis.

37. Senior officers' remuneration

37.1 Senior officers

Senior officers include all members of the Council's Corporate Leadership Team and other statutory officers.

37.2 Disclosure of senior officers' remuneration

Senior Officers' remuneration is disclosed overleaf.

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

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

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

37.3 Fees paid in respect of individuals engaged on an interim basis

The Council also secured services from various other individuals on an interim basis during 2019/20. The fees payable by the Council in respect of some of these individuals amounted to **£150,000** or more in 2019/20, as follows:

2018/19 £	Position	2019/20 £
153,070	**Programme Manager** (Ms Michelle Granat)	**191,955**
118,642	**Income Manager** (Mr Bola Odunsi)	**179,220**
23,920	**Interim Head of Service - Community and Discharge** (Ms Karen Reilly)	**167,629**
87,687	**Libraries Transformation Consultant** (Mr Aidan Daley)	**155,023**
21,448	**User Researcher** (Ms Magda Rok)	**152,772**

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.

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
Director, Wellbeing, Public Health and Communities - Dr Michael Gogarty	(iv)	165,087	250	2,357	-	167,694	26,619	194,313
Director, Legal and Assurance	(v)	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:

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

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

*(iii) The **Executive Director, Corporate and Customer** fulfilled the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972 throughout 2018/19.*

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

*(v) The Council's **Director, Legal and Assurance** fulfils the statutory role of Monitoring Officer.*

2019/20	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		196,950	-	14,336	-	211,286	31,709	242,995
Executive Director, Adult Social Care - Mr Nicholas Presmeg	(i)	164,055	-	-	-	164,055	25,286	189,341
Executive Director, Children and Families - Ms Helen Lincoln	(ii)	164,055	10,000	1,939	-	175,994	26,896	202,890
Executive Director, Corporate and Customer Services	(iii)	122,174	-	1,939	-	124,113	10,936	135,049
Executive Director, Corporate Development - Mr Jason Kitcat	(iv)	29,676	-	319	163,838	193,833	4,214	198,047
Executive Director, Finance and Technology	(v)	140,203	-	1,451	-	141,654	21,856	163,510
Executive Director, Economy, Localities and Public Health - Mr Mark Carroll		173,650	-	1,939	-	175,589	26,831	202,420
Director, Wellbeing, Public Health and Communities - Dr Michael Gogarty	(vi)	165,087	-	3,112	-	168,199	26,579	194,778
Director, Legal and Assurance	(vii)	130,333	-	-	-	130,333	20,581	150,914
Director, Organisation Development and People		144,911	-	1,975	-	146,886	22,495	169,381

Notes

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

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

*(iii) The **Executive Director, Corporate and Customer Services** fulfilled the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972 until 31 July 2019 when reducing to a three-day working week. The Executive Director reverted to full time working in March 2020, to help with the Council's response to the COVID 19 pandemic.*

*(iv) The **Executive Director, Corporate Development**, left the Council on 31 May 2019.*

*(v) The **Executive Director, Finance and Technology**, has fulfilled the statutory role of Chief Finance Officer under Section 151 of the Local Government Act 1972 since 1 August 2019.*

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

*(vii) The Council's **Director, Legal and Assurance** fulfils the statutory role of Monitoring Officer.*

38. Related parties

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

Related party	Declaration
UK Government	The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are detailed in notes 12 (page 71) and 13 (page 71).
Elected members	Members of the Council have direct control over the Council's financial and operating policies. The Council's Constitution requires members to declare their pecuniary interests and any other interests that could reasonably be regarded as likely to prejudice their judgement of the public interest in a Register of Interests and at relevant meetings. The Register of Interests is published on the Council's website. In addition, members are asked to declare separately any related party transactions with the Authority. Based on these declarations, the following matters require disclosure as related party transactions:
	▪ **Active Essex Foundation** The Active Essex Foundation supports the most deprived communities across Essex through the promotion of physical activity and sport. The Council paid grants of **£37,000** to the Foundation during 2019/20. **Cllr Ray Gooding** is a trustee of the Active Essex Foundation. Cllr Gooding is Cabinet Member for Education and Skills.
	▪ **Anglian Community Enterprise (ACE)** The Anglian Community Enterprise (ACE) is a community interest company that provides a range of community health and well-being services to the population of North East Essex, with some services also in Suffolk. The Council made payments totalling **£17.717m** to this ACE in 2019/20 (including **£14.390m** via the Better Care Fund). **Cllr Julie Young** became a Director of ACE in October 2019. Cllr Young has been Vice Chairman of the Corporate Policy and Scrutiny Committee since May 2019.
	▪ **Basildon Borough Heritage Society** The objectives of this charity are to advance the education of the public in the history and heritage of Basildon. The Council provided **£1,000** to the charity in 2018/19. **Cllr Tony Ball** is a trustee of this charity. Cllr Ball is Cabinet Member for Economic Development.

Related party	Declaration
Elected Members	▪ **Brentwood Community Transport** This charity provides transport to people who find mainstream public transport difficult to access. **Cllr David Kendall** was a trustee of the charity during 2018/19. The Council provided **£117,000** to this charity in 2018/19.
	▪ **Essex Association of Local Councils (EALC)** 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 a grant of **£30,000** to this organisation in 2019/20 (2018/19: £247,000). **Cllr John Jowers** is the current president of the EALC. He is also the current Chairman of the County Council.
	▪ **Essex Cares Ltd** Essex Cares Ltd is a wholly owned subsidiary of the Council (see page 126 for further details). The following Members have held the role of non-executive director of Essex Cares Ltd: – **Cllr Stephen Canning** was a non-executive director of Essex Cares Ltd between 14th August 2017 and 9th May 2018; he received an allowance of **£1,185** from Essex Cares in respect of this role in 2018/19. 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. – **Cllr Penny Channer** was appointed as a non-executive director of Essex Cares with effect from 9th May 2018; she received an allowance of **£12,000** from Essex Cares in respect of this role in 2019/20 (2018/19: £11,000). Cllr Channer is a member of the Council's Audit, Governance and Standards Committee.
	▪ **Firstsite Ltd** Firstsite Ltd promotes the arts in society for the benefit of the public, specifically the inhabitants of Colchester and East Anglia. Funding is awarded to Firstsite by the Arts Council England East, Colchester Borough Council and Essex County Council. **Cllrs Mark Durham** and **Julie Young** became trustees of Firstsite in July 2019. The Council made an up-front contribution to Firstsite in 2007/08, of which **£50,000** related to 2019/20 (2018/19: £100,000).
	▪ **Playout Group Ltd** 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. **Cllr Derek Louis** is a Director of these companies. During 2019/20, the Council made payments to these companies amounting to **£104,000** (2018/19: £79,000).
	▪ **Provide Community Interest Company** The principle activities of the company are the provision of integrated health and social care. **Cllr Derrick Louis** is the chairman of Provide. The Council made payments totalling **£25.424m** to this organisation during 2019/20 (2018/19: £24.636m).

Related party	Declaration
Elected Members	▪ **Open Road Visions** 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 provided **£1.6m** to the charity in 2019/20 (2018/19: £1.822m). **Cllr John Aldridge** became a trustee of the charity in March 2019. He was Chairman of the Council in April 2018 and is currently a member of the Development and Regulation Committee.
	▪ **Rural Community Council of Essex (RCCE)** The RCCE is a registered charity that works with local community groups in villages and market towns across the County. The Council provided **£1.076m** to the charity during 2019/20 (2018/19: £959,000). **Cllr Simon Walsh**, who is Cabinet Member for Environment and Climate Change Action, became a trustee of the Rural Community Council of Essex (RCCE) in July 2017.
	▪ **Stow Maries Great War Aerodrome** This charity's aim is to preserve the Stow Maries Great War Aerodrome. The Council loaned **£200,000** to this charity in 2013. The charity made loan repayments, comprising principal and interest, of **£28,000** during 2019/20 (2018/19: £29,000). **£125,000** of the loan remained outstanding at 31 March 2020 (31 March 2019: £150,000). **Cllr John Aldridge** became a trustee of this charity in January 2019. He was Chairman of the Council in April 2018. **Cllr Mark Platt** became a trustee in November 2019. Cllr Platt is the Deputy to the Cabinet Member for Environment and Climate Change Action, and is a member of the Audit, Governance and Standards Committee.
	▪ **Supporting Carers and Families Together** This charity's objective is to relieve the social, emotional, mental, physical and educational needs of carers and families in Essex. The Council provided **£4,000** to this charity in 2018/19. **Cllr June Lumley** is a Trustee of the charity. Cllr Lumley is a member of the Health Overview Policy and Scrutiny Committee, and the People and Families Policy and Scrutiny Committee.
	▪ **Tendring Eldercare** 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 **£100,000** to this charity in 2019/20 (2018/19: £74,000). **Cllr Mark Platt** is a trustee of this charity.
	▪ **Wyvern Community Transport** This charity provides transport to people who find mainstream public transport difficult to access. The Council provided **£125,000** to this charity in 2019/20 (2018/19: £124,000). **Cllr June Lumley** is a trustee of this charity.
	The total of members' allowances paid is shown in note 34 (page 114).

Related party	Declaration
Officers	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 Code of Conduct which seeks to prevent related parties exerting undue influence over the Council. In addition, they are required to declare any transactions with the Council.
Essex Pension Fund	The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies. The Council charged **£3.298m** for administering the Fund during 2019/20, of which **£545,000** was outstanding at 31 March 2020 (*2018/19: £3.001m, of which £448,000 was outstanding at 31 March 2019*).
Essex Cares Ltd	Essex Cares Ltd is a wholly owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 129 to 143. The Council commissioned services from Essex Cares Ltd to the value of **£39.2m** in 2019/20 (*2018/19: £35.8m*). The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2019/20; the value of these services in 2019/20 was **£390,000** (*2018/19: £320,000*). The Council also provided cash management support to Essex Cares Ltd. The Council paid interest of **£9,000** (net) on the amounts it borrowed from Essex Cares Ltd; **£100** of this total was outstanding at 31 March 2020 *(2018/19: paid interest of £3,000 (net) on amounts it borrowed, £500 of which was outstanding at 31 March 2019).* As noted on page 124, Cllr Stephen Canning held a position on the Essex Cares' Board of Directors until May 2018; thereafter, Cllr Penny Channer fulfilled this role.
Rochford District Council	The Council provided Section 151 Officer support to Rochford District Council during 2019/20, at a cost of **£33,000**, none of which was outstanding at 31 March 2020 (*2018/19: **£71,000**, of which £45,000 was outstanding at 31 March 2019*).
South East Local Enterprise Partnership	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 (*including representatives from businesses, local authorities and higher / further education*). The South East LEP secured **£102.737m** from the Government's Local Growth Fund in 2019/20 to support economic growth in the area, of which **£18.519m** was allocated to the Council to fund major transport schemes (2018/19: £91.739m of which £15.815m was allocated to fund major transport schemes). The funding allocated to the Council by the South East LEP followed a competitive bidding process. The Council made a loan repayment of **£300,000** to the South East LEP of a capital loan previously allocated from its Growing Places Fund.

39. Accounting for schools

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

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

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

2018/19						2019/20				
Nursery schools	Primary Schools	Secondary schools	Special schools	Total		Nursery schools	Primary Schools	Secondary schools	Special schools	Total
2	122	-	6	130	Community schools	2	116	-	6	124
-	28	1	1	30	Foundation schools	-	27	1	1	29
-	4	-	-	4	Foundation schools (C of E)	-	4	-	-	4
-	47	-	-	47	Voluntary controlled schools	-	43	-	-	43
-	48	3	-	51	Voluntary aided schools	-	45	3	-	48
2	249	4	7	262	Total	2	235	4	7	248

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 Secretary of State.

Note **14** on the Dedicated Schools Grant (see page 73) 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 2018/19 and 2019/20 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').

40. Events after the Balance Sheet Date

The Statement of Accounts was certified by the Executive Director, Finance and Technology on **30 November 2020**.

Neither the financial statements nor the notes to the Accounts have been adjusted for events after **31 March 2020** related to the Covid 19 pandemic. However commentary is provided in the Narrative Report (page 13) on the costs of the decisions taken by the Council for responding to the pandemic and on the associated emergency funding it has received from the Government.

Other events taking place after **31 March 2020** were not reflected in the financial statements or notes either.

Statement of Accounts - Group Accounts

Introduction

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

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

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

Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2020

2018/19					2019/20			
Gross expenditure £000	Government grants £000	Other Income £000	Net Expenditure £000		Gross expenditure £000	Government grants £000	Other income £000	Net expenditure £000
142,942	(13,301)	(8,054)	**121,587**	Children and Families	154,969	(16,381)	(7,741)	**130,847**
31,259	(84)	(9,317)	**21,858**	Customer, Communities, Culture and Corporate	31,317	(182)	(9,498)	**21,637**
14,774	(2,208)	(876)	**11,690**	Economic Development	17,153	(1,940)	(1,010)	**14,203**
				Education and Skills				
553,013	(517,133)	(40,311)	**(4,431)**	Dedicated Schools Budget	547,362	(508,393)	(37,104)	**1,865**
216,178	(54,630)	(44,839)	**116,709**	Non Dedicated Schools Budget	271,473	(26,604)	(43,121)	**201,748**
99,740	(2,288)	(5,470)	**91,982**	Environment and Climate Change Action	91,700	(1,824)	(5,858)	**84,018**
21,308	(482)	(5,152)	**15,674**	Finance, Property and Housing	21,541	(425)	(4,348)	**16,768**
658,300	(105,732)	(147,149)	**405,419**	Health and Adult Social Care	673,291	(107,587)	(150,406)	**415,298**
98,961	(12,718)	(17,079)	**69,164**	Infrastructure	95,460	(4,895)	(17,420)	**73,145**
10,472	(1,417)	135	**9,190**	Leader	951	(43)	143	**1,051**
1,377	-	(81)	**1,296**	Performance, Business Planning and Partnerships	1,942	-	(128)	**1,814**
				Recharged Strategic Support Services				
74,406	-	-	**74,406**	Customer, Communities, Culture and Corporate	74,928	-	-	**74,928**
20,020	-	-	**20,020**	Finance, Property and Housing	19,270	-	-	**19,270**
2,222	-	-	**2,222**	Leader	2,384	-	-	**2,384**
8,516	-	-	**8,516**	Performance, Business Planning and Partnerships	8,836	-	-	**8,836**
1,953,488	**(709,993)**	**(278,193)**	**965,302**	**Cost of services - continuing operations**	**2,012,577**	**(668,274)**	**(276,491)**	**1,067,812**
218,596	-	-	**218,596**	Other Operating Expenditure	49,504	-	-	**49,504**
128,452	-	(60,282)	**68,170**	Financing and Investment Income and Expenditure	123,348	-	(58,708)	**64,640**
-	(303,737)	(685,461)	**(989,198)**	Taxation and non specific grant income	-	(329,416)	(721,420)	**(1,050,836)**
2,300,536	**(1,013,730)**	**(1,023,936)**	**262,870**	**Deficit on Provision of Services**	**2,185,429**	**(997,690)**	**(1,056,619)**	**131,120**
			-	Tax expenses of subsidiary				-
			262,870	**Group deficit**				**131,120**
			(91,993)	Surplus arising on revaluation of non-current assets				**(83,918)**
			(160,966)	Re-measurements of the net defined benefits pension liability				**(163,843)**
			(252,959)	**Other Comprehensive Income and Expenditure**				**(247,761)**
			9,911	**Total Comprehensive Income and Expenditure**				**(116,641)**

Group Movement in Reserves Statement

For the years ended 31st March 2019 and 31st March 2020

	Usable Reserves							Total	Total	Analysis of Reserves	
	Earmarked General Reserves £000	General Fund Balance £000	Authority share of Profit and Loss Reserve of Subsidiary £000	Authority share of Pension Reserve of Subsidiary £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Reserves £000	Total Authority Reserves £000	Authority Share of Reserves of Subsidiary £000
Balance at 31 March 2018	**(284,997)**	**(55,212)**	**(1,902)**	**(2,926)**	**-**	**(2,557)**	**(347,594)**	**(850,499)**	**(1,198,093)**	**(1,193,265)**	**(4,828)**
Restatement of opening balances											
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)	-
Adjusted Balance at 1 April 2018	**(284,997)**	**(53,638)**	**(1,902)**	**(2,926)**	**-**	**(2,557)**	**(346,020)**	**(850,499)**	**(1,196,519)**	**(1,191,691)**	**(4,828)**
Movement in Reserves during 2018/19											
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**	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	**-**	**(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	-	-	-	-	-	-	-
(Increase) / decrease in 2018/19	(9,881)	(2,972)	(2,614)	(3,017)	-	(1,663)	**(20,147)**	**30,058**	**9,911**	15,542	(5,631)
Balance at 31 March 2019	**(294,878)**	**(56,610)**	**(4,516)**	**(5,943)**	**-**	**(4,220)**	**(366,167)**	**(820,441)**	**(1,186,608)**	**(1,176,149)**	**(10,459)**
Movement in Reserves during 2019/20											
Total Comprehensive Expenditure and Income	-	131,513	(393)	(2,994)	-	-	**128,126**	**(244,767)**	**(116,641)**	(113,254)	(3,387)
Adjustments between accounting basis and funding under regulations	-	(175,481)	-	-	(9,581)	2,962	**(182,100)**	**182,100**	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	(43,968)	(393)	(2,994)	(9,581)	2,962	**(53,974)**	**(62,667)**	**(116,641)**	(113,254)	(3,387)
Transfers to Earmarked Reserves	(44,139)	44,139	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2019/20	(44,139)	171	(393)	(2,994)	(9,581)	2,962	**(53,974)**	**(62,667)**	**(116,641)**	(113,254)	(3,387)
Balance at 31 March 2020	**(339,017)**	**(56,439)**	**(4,909)**	**(8,937)**	**(9,581)**	**(1,258)**	**(420,141)**	**(883,108)**	**(1,303,249)**	**(1,289,403)**	**(13,846)**

Statement of Accounts - Group Accounts

Group Balance Sheet as at 31st March 2020

1 April 2018 Restated £000	31 March 2019 Restated £000	Note		31 March 2020 £000
			Property, Plant and Equipment	
			Operational assets	
1,571,218	1,408,207		Land and buildings	**1,398,920**
16,425	11,123		Vehicles, plant and equipment	**10,192**
1,075,953	1,141,369		Infrastructure	**1,180,934**
3,117	3,130		Community assets	**3,275**
			Non operational assets	
135,115	168,935		Assets under construction	**137,519**
45,003	55,124		Surplus assets held pending disposal	**52,338**
2,846,831	**2,787,888**		**Total Property, Plant and Equipment**	**2,783,178**
14,501	14,572		Heritage assets	**14,667**
39,920	38,337		Investment property	**39,181**
9,523	7,352		Intangible assets	**8,792**
12,746	13,115		Long term investments	**12,705**
17,292	16,803		Long term debtors	**15,698**
2,940,813	**2,878,067**		**Long term assets**	**2,874,221**
211,561	90,209		Short term investments	**115,191**
8,038	10,839		Inventories	**10,342**
164,244	146,162	**5**	Short term debtors	**135,214**
74,466	209,787		Cash and cash equivalents	**326,328**
3,795	6,124		Assets held for sale	**2,413**
462,104	**463,121**		**Current assets**	**589,488**
(33,893)	(52,242)		Bank overdraft	**(17,718)**
(7,382)	(8,164)		Short-term borrowing	**(23,571)**
(295,301)	(308,115)	**5**	Creditors	**(327,128)**
(13,507)	(14,270)		Revenue grant receipts in advance	**(31,694)**
(54,528)	(75,075)		Capital grant receipts in advance	**(69,181)**
(12,908)	(11,810)		Provisions (current)	**(13,350)**
(8,028)	(7,951)		Finance lease obligations - short term	**(7,629)**
(425,547)	**(477,627)**		**Current liabilities**	**(490,271)**
(124)	(1,113)		Long term creditors	**(1,215)**
-	-		Revenue grant receipts in advance (long term)	**(1,956)**
-	-		Capital grant receipts in advance (non current)	**(25,922)**
(30,240)	(35,365)		Provisions (non-current)	**(33,755)**
(514,914)	(511,798)		Long term borrowing	**(598,941)**
			Other long term liabilities	
(138,945)	(130,957)		Finance lease obligations	**(115,580)**
(12,303)	(11,699)		Deferred credits	**(10,926)**
(1,082,751)	(986,021)	**6**	Net Pensions liability	**(881,894)**
(1,779,277)	**(1,676,953)**		**Long term liabilities**	**(1,670,189)**
1,198,093	**1,186,608**		**Net Assets**	**1,303,249**

Note: The opening and closing comparative figures for the prior year have been restated on a basis consistent with 2019/20. The restatement of comparative figures was necessary because the pooled position on the Council's bank accounts was previously offset against cash and cash equivalents but it should have been shown as a bank overdraft within current liabilities instead (see Note 22 on page 93 for further details).

Group Balance Sheet as at 31st March 2020

1 April 2018 Restated £000	31 March 2019 Restated £000	Note		31 March 2020 £000
			Usable reserves	
(284,997)	(294,878)		Earmarked reserves	**(339,017)**
(55,212)	(56,610)		General Fund Balance	**(56,439)**
(1,902)	(4,516)		Profit and Loss reserve	**(4,909)**
(2,926)	(5,943)	6	Pension reserve	**(8,937)**
-	-		Usable capital receipts reserve	**(9,581)**
(2,557)	(4,220)		Capital grants unapplied	**(1,258)**
(347,594)	**(366,167)**			**(420,141)**
			Unusable reserves	
(616,624)	(601,983)		Revaluation reserve	**(634,629)**
(1,316,405)	(1,208,599)		Capital Adjustments Account	**(1,150,386)**
3,061	3,003		Financial Instruments Adjustment Account	**12,452**
-	(1,030)		Pooled Investment Funds Adjustment Account	**(636)**
(861)	-		Available for Sale Financial Instruments Reserve	**-**
1,085,677	991,877	6	Pension reserve	**888,101**
(2,535)	(2,519)		Deferred capital receipts	**(334)**
(15,696)	(11,723)		Collection Fund Adjustment Account	**(9,085)**
12,884	10,533		Accumulating Compensated Absences Adjustment Account	**11,409**
(850,499)	**(820,441)**			**(883,108)**
(1,198,093)	**(1,186,608)**		**Total Reserves**	**(1,303,249)**

Group Cash Flow Statement

For the year ended 31st March 2020

2018/19 Restated £000	Notes		2019/20 £000
5,482	7	Operating activities	**(29,722)**
(131,405)		Investing activities	**(16,397)**
8,949		Financing activities	**(104,946)**
(116,974)		**Net increase in cash and cash equivalents**	**(151,065)**
40,573		Cash and cash equivalents at 1st April	**157,545**
(2)		Adjustment for credit loss allowances (cash and cash equivalents)	**-**
40,571			**157,545**
157,545		**Cash and cash equivalents at 31st March**	**308,610**

Note:

The comparative figures for 2018/19 have been restated on a basis consistent with 2019/20. The restatement was necessary because cash flows arising from revenue expenditure funded from capital under statute were previously classified as Investing activity cash flows, but they should have been classified as Operating activity cash flows (see note 28 on page 102 for further details).

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

2018/19				2019/20		
Net expenditure chargeable to General Fund £000	Adjustments between the Funding and Accounting basis £000	Net expenditure in the Comprehensive Income and Expenditure Statement £000		Net expenditure chargeable to General Fund £000	Adjustments between the Funding and Accounting basis £000	Net expenditure in the Comprehensive Income and Expenditure Statement £000
116,199	5,388	121,587	Children and Families	122,909	7,938	130,847
17,467	4,391	21,858	Customer, Communities, Culture and Corporate	16,571	5,066	21,637
6,887	4,803	11,690	Economic Development	6,146	8,057	14,203
			Education and Skills			
820	(5,251)	(4,431)	Dedicated Schools Budget	451	1,414	1,865
78,351	38,358	116,709	Non Dedicated Schools Budget	89,141	112,607	201,748
87,007	4,975	91,982	Environment and Climate Change Action	80,947	3,071	84,018
13,977	1,697	15,674	Finance, Property and Housing	15,913	855	16,768
397,706	7,713	405,419	Health and Adult Social Care	407,020	8,278	415,298
54,294	14,870	69,164	Infrastructure	48,058	25,087	73,145
5,508	3,682	9,190	Leader	5,860	(4,809)	1,051
1,285	11	1,296	Performance, Business Planning and Partnerships	1,740	74	1,814
			Recharged Strategic Support Services			
56,377	18,029	74,406	Customer, Communities, Culture and Corporate	61,674	13,254	74,928
18,480	1,540	20,020	Finance, Property and Housing	17,624	1,646	19,270
2,123	99	2,222	Leader	2,227	157	2,384
7,884	632	8,516	Performance, Business Planning and Partnerships	7,959	877	8,836
864,365	**100,937**	**965,302**	**Cost of services - continuing operations**	**884,240**	**183,572**	**1,067,812**
(878,899)	176,467	(702,432)	Other income and expenditure not charged to services	(928,601)	(8,091)	(936,692)
(14,534)	**277,404**	**262,870**	**Surplus on Provision of Services**	**(44,361)**	**175,481**	**131,120**
			General Fund Balance & Profit and Loss Reserve			
(57,114)			Balance as at 1 April	(61,126)		
1,574			Restatement of opening balances	-		
(55,540)			**Restated balance at 1 April**	**(61,126)**		
(14,534)			Surplus on Provision of Services	(44,361)		
8,948			Transfers from Earmarked Revenue Reserves	44,139		
(61,126)			**Balance as at 31 March**	**(61,348)**		

4. Note to the Group Expenditure and Funding Analysis

2018/19	Adjustments for capital purposes £000	Net change for Pension Adjustments £000	Other adjustments between funding and accounting £000	Other differences £000	Adjustments between the Funding and Accounting basis £000
Children and Families	529	4,859	-	-	**5,388**
Customer, Communities, Culture and Corporate	3,241	1,150	-	-	**4,391**
Economic Development	4,289	514	-	-	**4,803**
Education and Skills					
Dedicated Schools Budget	-	-	(2,351)	(2,900)	**(5,251)**
Non Dedicated Schools Budget	35,033	12,620	-	(9,295)	**38,358**
Environment and Climate Change Action	4,684	301	-	(10)	**4,975**
Finance, Property and Housing	1,831	182	-	(316)	**1,697**
Health and Adult Social Care	3,757	3,956	-	-	**7,713**
Infrastructure	24,790	880	-	(10,800)	**14,870**
Leader	6,812	6,080	-	(9,210)	**3,682**
Performance, Business Planning and Partnerships	-	11	-	-	**11**
Recharged Strategic Support Services					
Customer, Communities, Culture and Corporate	15,711	2,318	-	-	**18,029**
Finance, Property and Housing	-	1,602	-	(62)	**1,540**
Leader	-	99	-	-	**99**
Performance, Business Planning and Partnerships	-	632	-	-	**632**
Cost of services - continuing operations	**100,677**	**35,204**	**(2,351)**	**(32,593)**	**100,937**
Other income and expenditure not charged to services	112,116	28,012	3,746	32,593	**176,467**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	**212,793**	**63,216**	**1,395**	**-**	**277,404**

2019/20	Adjustments for capital purposes £000	Net change for Pension Adjustments £000	Other adjustments between funding and accounting £000	Other differences £000	Adjustments between the Funding and Accounting basis £000
Children and Families	1,680	5,659	599	-	**7,938**
Customer, Communities, Culture and Corporate	3,343	1,635	88	-	**5,066**
Economic Development	7,500	507	50	-	**8,057**
Education and Skills					
Dedicated Schools Budget	-	-	(1,045)	2,459	**1,414**
Non Dedicated Schools Budget	107,720	13,690	240	(9,043)	**112,607**
Environment and Climate Change Action	2,608	429	45	(11)	**3,071**
Finance, Property and Housing	821	267	21	(254)	**855**
Health and Adult Social Care	3,174	4,576	528	-	**8,278**
Infrastructure	34,352	953	73	(10,291)	**25,087**
Leader	(4,261)	(713)	9	156	**(4,809)**
Performance, Business Planning and Partnerships	-	62	12	-	**74**
Recharged Strategic Support Services					
Customer, Communities, Culture and Corporate	10,020	3,022	212	-	**13,254**
Finance, Property and Housing	-	1,843	13	(210)	**1,646**
Leader	-	141	16	-	**157**
Performance, Business Planning and Partnerships	-	841	36	-	**877**
Cost of services - continuing operations	**166,957**	**32,912**	**897**	**(17,194)**	**183,572**
Other income and expenditure not charged to services	(61,906)	24,161	12,460	17,194	**(8,091)**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services	**105,051**	**57,073**	**13,357**	**-**	**175,481**

5. Debtors and creditors

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

6. Defined Benefit Pension Schemes

Note 32 of the Council’s single entity accounts provides an explanation of the Council’s participation in 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 32 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 2019/20 in relation to participation in the Local Government Pension Scheme.

Statement of Accounts - Group Accounts

2018/19 Council £000	2018/19 Subsidiary £000	2018/19 Group £000		2019/20 Council £000	2019/20 Subsidiary £000	2019/20 Group £000
			Comprehensive Income and Expenditure Statement			
			Cost of Services			
85,989	1,599	**87,588**	Current service cost	90,828	1,638	**92,466**
27,791	45	**27,836**	Past service cost	2,877	301	**3,178**
(21,722)	-	**(21,722)**	Gain / loss on settlement	(3,723)	1,345	**(2,378)**
92,058	**1,644**	**93,702**		**89,982**	**3,284**	**93,266**
			Financing and Investment Income and Expenditure			
26,895	(103)	**26,792**	Net interest expense	23,246	(123)	**23,123**
26,895	**(103)**	**26,792**		**23,246**	**(123)**	**23,123**
118,953	**1,541**	**120,494**	**Total charge to the Surplus / Deficit on Provision of Services**	**113,228**	**3,161**	**116,389**
			Re-measurement of the net pensions liability			
(121,830)	(2,814)	**(124,644)**	Return on scheme assets	172,085	6,038	**178,123**
			Actuarial (gains) / losses arising from changes in:			
145,108	4,098	**149,206**	Financial assumptions	(298,174)	(6,290)	**(304,464)**
(179,297)	(3,938)	**(183,235)**	Demographic assumptions	(30,642)	(677)	**(31,319)**
-	-	**-**	Experience (gain) / loss on defined benefit obligation	43,130	(622)	**42,508**
-	1,097	**1,097**	Other	(46,327)	(1,443)	**(47,770)**
-	(2,393)	**(2,393)**	Change in effect of the asset ceiling		-	**-**
(156,019)	**(3,950)**	**(159,969)**	**Total charged to Other Comprehensive Income and Expenditure**	**(159,928)**	**(2,994)**	**(162,922)**
(37,066)	**(2,409)**	**(39,475)**	**Total charged to the Comprehensive Income and Expenditure Statement**	**(46,700)**	**167**	**(46,533)**
			Movement on the Authority's General Fund Balance			
(118,953)	-	**(118,953)**	Reversal of net charges made for retirement benefits in accordance with IAS 19	(113,228)	-	**(113,228)**
53,662	521	**54,183**	Actual amount charged against the General Fund Balance for pensions in the year	54,036	518	**54,554**
(65,291)	**521**	**(64,770)**		**(59,192)**	**518**	**(58,674)**

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

2018/19 Council £000	2018/19 Subsidiary £000	2018/19 Total £000		2019/20 Council £000	2019/20 Subsidiary £000	2019/20 Total £000
3,256,736	77,792	**3,334,528**	Present value of the defined benefit obligation	3,050,857	65,845	**3,116,702**
(2,293,901)	(83,648)	**(2,377,549)**	Fair value of plan assets	(2,188,758)	(72,052)	**(2,260,810)**
962,835	**(5,856)**	**956,979**	**Sub total**	**862,099**	**(6,207)**	**855,892**
-	-	-	Impact of asset ceiling	-	-	-
962,835	**(5,856)**	**956,979**	**Net liablity arising from defined benefit obligations**	**862,099**	**(6,207)**	**855,892**

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

2018/19				2019/20		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
3,224,588	72,528	**3,297,116**	**Balance as at 1 April**	3,256,736	77,792	**3,334,528**
85,989	1,599	**87,588**	Current service cost	90,828	1,638	**92,466**
80,707	1,868	**82,575**	Interest Cost	77,131	1,851	**78,982**
15,857	256	**16,113**	Contributions by scheme participants	17,110	259	**17,369**
			Actuarial (gains) / losses			
(179,297)	(3,938)	**(183,235)**	Actuarial (gains) / losses arising from changes in demographic assumptions	(30,642)	(677)	**(31,319)**
145,108	4,098	**149,206**	Actuarial (gains) / losses arising from changes in financial assumptions	(298,174)	(6,290)	**(304,464)**
-	-	**-**	Experience loss (gain) on defined benefit obligation	-	(622)	**(622)**
-	2,895	**2,895**	Other	43,130	(1,099)	**42,031**
27,791	45	**27,836**	Past service costs	2,877	301	**3,178**
(92,701)	(1,559)	**(94,260)**	Benefits paid	(100,568)	(1,799)	**(102,367)**
(51,306)	-	**(51,306)**	Liabilities extinguished on settlements	(7,571)	(5,509)	**(13,080)**
3,256,736	**77,792**	**3,334,528**	**Balance as at 31 March**	**3,050,857**	**65,845**	**3,116,702**

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

2018/19				2019/20		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
2,171,025	77,847	**2,248,872**	**Balance as at 1 April**	2,293,901	83,648	**2,377,549**
53,812	1,971	**55,783**	Interest income	53,885	1,974	**55,859**
			Remeasurement gain / (loss)			
121,830	2,814	**124,644**	Return on plan assets (excl. amount incl in net interest expense)	(172,085)	(6,038)	**(178,123)**
-	1,798	**1,798**	Other	46,327	344	**46,671**
53,662	521	**54,183**	Contributions by Employer	54,036	518	**54,554**
15,857	256	**16,113**	Contributions by scheme participants	17,110	259	**17,369**
(92,701)	(1,559)	**(94,260)**	Benefits paid	(100,568)	(1,799)	**(102,367)**
(29,584)	-	**(29,584)**	Settlements	(3,848)	(6,854)	**(10,702)**
2,293,901	**83,648**	**2,377,549**	**Balance as at 31 March**	**2,188,758**	**72,052**	**2,260,810**

The Local Government Pension Scheme assets comprised:

31 March 2019			31 March 2020	
£000	%		£000	%
1,479,461	*62.3%*	Equities	**1,323,337**	***58.5%***
125,823	*5.3%*	Gilts	**97,445**	***4.3%***
141,107	*5.8%*	Other bonds	**136,981**	***6.1%***
211,336	*8.9%*	Property	**203,302**	***9.0%***
62,707	*2.6%*	Cash and cash equivalents	**93,972**	***4.2%***
231,145	*9.8%*	Alternative Assets	**260,412**	***11.5%***
125,970	*5.3%*	Other managed funds	**145,361**	***6.4%***
2,377,549	***100.0%***	**Total assets**	**2,260,810**	***100.0%***

Note 32.4 of the Council's 'single entity' accounts, which commences on page 111, 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 **2.65%** (2018/19: 3.15%).

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

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	3,057,075	3,116,702	3,177,553
Projected Service Cost	83,998	86,237	88,537
Adjustment to long term salary increase	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	3,120,736	3,116,702	3,112,704
Projected Service Cost	86,278	86,237	86,195
Adjustment to pension increases and deferred revaluation	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation	3,173,731	3,116,702	3,060,754
Projected Service Cost	88,503	86,237	84,027
Adjustment to mortality age rating assumption	**+ 1 year**	**None**	**- 1 year**
Present value of total obligation	3,243,683	3,116,702	2,995,029
Projected Service Cost	88,873	86,237	83,678

7. Cash Flow

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

2018/19 Restated £000		2019/20 £000
	Cash flows from operating activities	
	Cash inflows	
(689,434)	Taxation	**(724,058)**
(883,234)	Grants	**(919,570)**
(303,692)	Sales of goods and rendering of services	**(289,993)**
(4,049)	Interest received	**(3,353)**
-	Dividends received	**(334)**
(1,880,409)		**(1,937,308)**
	Cash outflows	
455,157	Cash paid to and on behalf of employees	**449,632**
39,772	Interest paid	**48,050**
1,211,146	Cash paid to suppliers of goods and services	**1,223,743**
69,862	Revenue expenditure funded from capital under statute	**74,640**
109,954	Other payments for operating activities	**111,521**
1,885,891		**1,907,586**
5,482	**Net (inflow) / outflow of cash from operating activities**	**(29,722)**
	Cash flows from investing activities	
	Cash inflows	
(10,283)	Proceeds from the sale of property, plant and equipment, investment property and intangible asssets	**(29,161)**
(454,468)	Proceeds from short and long term investments	**(523,713)**
(177,436)	Other receipts from investing activities	**(130,072)**
(642,187)		**(682,946)**
	Cash outflows	
175,822	Purchase of property, plant and equipment, investment property and intangible assets	**116,263**
333,869	Purchase of short and long term investments	**548,300**
1,091	Other payments for investing activities	**1,986**
510,782		**666,549**
(131,405)	**Net inflow of cash from investing activities**	**(16,397)**
	Cash flows generated from financing activities	
	Cash inflows	
(1,702)	Cash receipts of short and long term borrowing	**(107,194)**
(316)	Other receipts from financing activities	**(20,166)**
(2,018)		**(127,360)**
	Cash outflows	
8,169	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	**17,770**
2,798	Repayment of short and long term borrowing	**4,644**
-	Other payments for financing activities	**-**
10,967		**22,414**
8,949	**Net (inflow) / outflow of cash from financing activities**	**(104,946)**
(116,974)	**Net increase in cash and cash equivalents**	**(151,065)**

Notes: The comparative figures for 2018/19 have been restated, on a basis comparable with 2019/20, for the reasons set out in Note 28 on page 102.

Statement of Accounts - Pension Fund Accounts

Introduction

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

Pension Fund Accounts

Fund Account for the year ended 31st March 2020

2018/19 £000	Note		2019/20 £000
		Dealing with members and others directly involved in the Fund	
		Income	
		Contributions receivable	
(57,799)	9	Member contributions	(60,772)
(181,987)	9	Employers' contributions	(191,720)
(10,796)	9	Transfers in from other Pension Funds	(12,253)
(2,423)		Other income	(2,318)
(253,005)		**Total income**	**(267,063)**
		Expenditure	
		Benefits payable	
200,611	9	Pensions	211,869
38,334	9	Commutation of pensions & lump sum retirement benefits	41,130
5,599	9	Lump sum death benefits	7,178
31,024	9	Payments to and on account of Leavers	24,233
275,568		**Total expenditure**	**284,410**
22,563		**Net (additions) / withdrawals from dealings with members**	**17,347**
48,921	11	Management expenses	55,317
71,484		**Net (additions) / withdrawals including Fund management expenses**	**72,664**
		Returns on investments	
(92,287)	10	Investment income	(109,811)
(492,310)	12	Profit and losses on disposal of investments and changes in the value of investments	433,307
4,647	15	Taxes on income	3,503
(579,950)		**Net returns on investments**	**326,999**
(508,466)		**Net (increase)/decrease in the net assets available for benefits during the year**	**399,663**
(6,518,822)		Opening net assets as at 1 April	(7,027,288)
(7,027,288)		**Closing net assets as at 31 March**	**(6,627,625)**

Pension Fund Accounts

Net Assets Statement as at 31st March 2020

31 March 2019 £000	Note		31 March 2020 £000
	12	**Investments**	
		Investment assets	
404,594		Fixed interest securities	**400,724**
4,064,304		Equities	**3,530,936**
391,041		Index linked securities	**285,066**
383,250		Property	**429,285**
226,626		Property unit trusts	**165,452**
321,530		Private equity	**340,352**
356,015		Infrastructure	**392,964**
212,357		Timber	**234,178**
118,654		Private debt	**135,587**
365,608		Other managed funds	**425,244**
11,216		Derivative contracts	**31**
145,961		Cash/deposits	**250,164**
7,995		Other investment balances	**9,393**
7,009,151			**6,599,376**
		Investment liabilities	
(10,798)		Derivative contracts	**(31)**
(209)		Other investment balances	**(1,400)**
(11,007)			**(1,431)**
6,998,144		**Total net investments**	**6,597,945**
		Long term debtors	
1,587	14	Contributions due from employers	**539**
		Current assets and liabilities	
		Current Assets	
14,775		Cash	**16,749**
21,560		Contributions due from employers and other current assets	**21,808**
7,036,066			**6,637,041**
		Current liabilities	
(8,778)		Unpaid benefits and other current liabilities	**(9,416)**
7,027,288		**Net assets of the scheme available to fund benefits at the end of the reporting period**	**6,627,625**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 3.

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 Essex Pension Fund (" the 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 to provide pensions and other benefits for its Essex County Council 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, Finance and Technology 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, is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website (www.essexpensionfund.co.uk).

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 2019 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS). As at 31 March 2020 Link had launched 15 sub funds.

At the end of 2017/18 Essex Pension Fund had transitioned **£1,945m** from Legal and General to ACCESS's new provider, UBS Asset Management. During 2018/19 a further **£1,532m** had been invested into sub funds managed by Link Solutions Limited. No new assets were transitioned in 2019/20.

It is anticipated that during 2020/21 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 **700** active employer organisations within Essex Pension Fund including the County Council itself.

Membership details are set out below:

31 March 2019 *Restated*		31 March 2020
52,524	Contributors	**57,498**
73,827	Deferred pensioners	**69,857**
42,405	Pensioners	**44,682**
168,756		**172,037**

Prior year membership data has been restated to reflect the final membership position following the Actuarial Valuation carried out as at 31 March 2019.

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 2020. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31st March 2019**. Details can be found on the website www.essexpensionfund.co.uk.

1.4 Benefits

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

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

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.

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 2019/20 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 2020 and its position as at 31st March 2020. They report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. However, a statement calculating the Fund's actuarial present value of promised retirement benefits (IAS 26) as at 31st March 2020 using IAS 19 methodology can be found in section 3.3. Details of the actuarial position of the scheme as at 31st March 2019 can also be found in section 3.1.

The accounts are prepared on a going concern basis.

3. Actuarial valuation

The contributions payable for 2019/20 were determined by the 2016 Actuarial Valuation.

3.1 Actuarial Valuation 2019

In line with the Local Government Pension Regulations 2013 the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting the employer contribution rates for the forthcoming triennial period.

An Actuarial Valuation of the Essex Pension Fund was carried out as at 31st March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

Actuarial Approach

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, a smoothed value is used by the Fund's Actuary, Barnett Waddingham.

The Actuary's approach adopted at the 2019 Actuarial Valuation included 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 2019 to 30 June 2019. The discount rate is based on the expected investment return from the Fund's assets.
- the market value of assets at 31 March 2019 is then adjusted to also be smoothed over the same six-month period so that a consistent comparison can be made with the liabilities.
- the smoothed assets also include a 5% volatility reserve deduction which may be used in the instance for future adverse experience to help achieve stability.

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

Assumptions	Financial assumptions	
	2016	2019
Rate of return	5.10%	4.50%
Rate of discount	5.10%	4.50%

Assumptions	Financial assumptions	
	2016	2019
Short term pay increase	CPI to 31 March 2020	N/A
Long term pay increase	3.9%	3.6%
Rate of increase to pensions in payment	2.4%	2.6%
Pension increases on Guaranteed Minimum Pension	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reached SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	

The assumed life expectancy from age 65 is as follows:

31 March 2016 *Years*		31 March 2019 *Years*
	Retiring today	
22.3	Males	**21.7**
24.8	Females	**23.7**
	Retiring in 20 years	
24.5	Males	**23.1**
27.2	Females	**25.1**

The assets were assessed at market value.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£6,711m** (on a smoothed basis) represented **97%** of the Funding Target liabilities of **£6,917m** at the valuation date (an increase from 89% as at 31 March 2016). This was based on a smoothing adjustment of 100.5% applied to the market value of the assets less the 5% volatility reserve.

The valuation also showed that a primary rate of contribution of **20.0%** of Pensionable Pay per annum was required from employers (16.3% as at 31 March 2016). 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 next triennial actuarial valuation of the Fund is currently due as at 31st march 2022. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2023.

Funding Strategy

The Funding Strategy 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 funding objectives of the Fund are:

- to prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement;
- to recognise in drawing up its Funding Strategy, the desirability of employer contribution rates that are as stable as possible;
- to manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives;
- to maintain liquidity in order to ensure benefits can be met as and when they fall due over the lifetime of the Fund;
- to adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations to minimise unrecoverable debt on termination of employer participation; and
- to have consistency between the investment strategy and funding strategy; and to maximise returns within reasonable risk parameters.

3.2 IAS 19 Actuarial present value of promised retirement benefits

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

3.3 IAS 26 – Total Fund: 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 2019.

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 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 2019 is **20 years** which in turn means a discount rate of **2.35%** per annum (31 March 2019: 2.40%).

McCloud / Sargeant 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. The remedy remains uncertain. A public consultation is expected in 2020/21 with proposed changes to remove discrimination by extension of protections. The Actuary applying GAD's scenario analysis has estimated that the impact on the total liabilities at 31st March 2019 was **0.8%** of liabilities, which equates to **£79.328m**.

In regard to 2019/20, an allowance was made for the potential impact of the McCloud and Sargeant judgement in the results provided to the Fund at the last accounting date as stated above and is already included in the starting position. This allowance is incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

The value of the Fund's promised retirement benefits as at 31st March 2020 was **£9,259m** (£9,805m as at 31 March 2019). The key financial assumptions used are:

31 March 2019 %		31 March 2020 %
2.40	Pension increases	**1.90**
3.90	Salary increases	**2.90**
2.40	Discount rate	**2.35**

The key demographic assumptions used (life expectations from age 65) are as follows:

31 March 2019 Years	Life expectancy from age 65	31 March 2020 Years
	Retiring today	
21.3	Males	**21.8**
23.6	Females	**23.7**
	Retiring in 20 years	
22.9	Males	**23.2**
25.4	Females	**25.2**

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 financial 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 164).

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 164).

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.

- **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 accrual's basis. Any amount not received by the end of the financial year is disclosed in the Net Assets Statement under other investment balances.

- **Distribution from pooled funds**

  Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

- **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 realised and unrealised profits and losses during the year.

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 accrual's 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 providing that payment has been approved.

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.

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'.

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.

Oversight and governance costs

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.

Investment management expenses

All investment management expenses are accounted for 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 2019/20, **£1.735m** of fees is based on such estimates (2018/19: £2.412m). 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. Transaction costs and custody fees are included within investment management expenses.

The cost of obtaining investment advice from external consultants is included in government and oversight.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis (with the exception of cash and debtors, which have been dealt with on an amortised cost basis), as at the financial year end date of 31 March. The financial asset is recognised in the Net Asset Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

The values of investments shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 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 in consultation with the Fund's Investment Managers have been assessed and a single level has been applied, based on their overall characteristics.

4.3.2 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**

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

  Unquoted private equity

  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 2019/20, these are mainly valued as at 31 December 2019, 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 2020 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 2020.

  In addition to the above treatment, the Fund, using information supplied by the Fund's private equity manager has made a further adjustment to reflect the last quarter's market volatility arising from the COVID-19 crisis. The Fund reduced the market value of private equity by 4.95% based on a regression analysis model of historical quarterly private equity fund valuations against relevant public market indices.

Other unquoted investments

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 managers and are based on industry guidelines and standards set by the constituent documents of the pool or the management agreement. These investments are based on 31 March 2020 valuations.

- **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.

- **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 2020, 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, where available, and appropriate valuation techniques (the Investment Method), such as the use of estimated future rental yields and rental values. Due to the unprecedented set of circumstances arising from the COVID-19 pandemic, the Valuers have stated that the valuations as at 31st March 2020 are reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation – Global Standards.

4.3.3 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.

4.3.4 Dividends, Interest and Foreign Currencies

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

4.3.5 *Cash and Cash Equivalents*

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

4.3.6 *Additional Voluntary Contribution*

The Essex Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 13.

The AVC providers to the Fund are The Equitable Life Assurance Society, Prudential and Standard Life.

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.

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:

- **Pension fund liability**

  The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuation are agreed with the Actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits *Note:* *Results are taken from the 2019 Actuarial valuation*	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a **0.1%** decrease in the discount rate assumption would result in an increase in the pension liability of **£116m**. An increase of the CPI assumption by **0.1%** per annum increases the value of liabilities by approximately **£18m**. A **0.5%** increase in the long-term rate of salary increase would increase the value of liabilities by approximately **£55m.** Increasing the long-term rate of improvement used in the mortality projection by **0.25%** per annum would increase the liability by approximately **£50m**.
Property	**Direct Property** Property valuation is performed by independent external valuers, in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data.	The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of directly held property by +/- 20% an increase or decrease of **£79.585m**, on current value of **£397.925m** (Notes 17.1 and 17.4)

Item	Uncertainties	Effect if actual results differ from assumptions
	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels, changes in market process, changes in volume of sales and purchases or the discount rate could affect the fair value of property. **Material Uncertainty** The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. As at the valuation date, the Fund considers that it can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that the Fund is faced with an unprecedented set of circumstances on which to base a judgement. The Fund's valuation(s) is / are therefore reported on the basis of ‘material valuation uncertainty’ per VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the Fund has been recommended to keep the valuation of the properties within this portfolio under frequent review.	
	Pooled property funds and global property Valuation techniques are used to determine the carrying amount of pooled property funds and global property.	The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of: • pooled property funds by +/- 20% an increase or decrease of **£33.090m**, on

Item	Uncertainties	Effect if actual results differ from assumptions
	Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Uncertainties including changes in rental growth, covenant strength for existing tenancies, discount rate could affect the fair value of property investments. **Material uncertainty** The impact of the outbreak of the Novel Coronavirus (COVID-19), and the resulting material valuation uncertainty, disclosed above for Direct Property, is also relevant to the pooled property funds, valued at **£165.452m** at 31 March 2020.	current value of **£165.452m**. (Notes 17.1 and 17.4) · global held property by +/- 14,2% an increase or decrease of **£4.453m**, on current value of **£31.360m**. (Notes 17.1 and 17.4)
Private equity / Infrastructure / Timber / Private debt	There is a degree of estimation involved in the valuation of these assets. Uncertainties including changes in market activity, credit risks, expected cash flows, discount rates used can impact valuations. Due to the increased uncertainty caused by the Novel Coronavirus (COVID-19), we reduced the market value of private equity by 4.95% based on a regression analysis model of historical quarterly private equity fund valuations against relevant public market indices.	The total private equity, infrastructure, timber and private debt investments in the financial statements are **£1,103m**. There is a risk that this investment may be under or overstated in the accounts, totalling an increase / decrease of **£88.636m** (Notes 17.1 and 17.4).

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).

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

8. Accounting standards issued but not yet adopted

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard 16 Leases (IFRS16) which, when adopted, will require the Fund to recognise most of the assets it has secured the use of through a lease arrangement on its Net Asset Statement as ‘right of use’ assets, together with the corresponding lease liabilities. This differs from the current practice of only recognising the assets and liabilities associated with the finance leases entered into by the Fund on its Net Asset Statement. It has been anticipated that IFRS16 would be adopted in 2020/21, but implementation has now been deferred to the 2021/22 financial year.

9. Membership activities

9.1 Pension benefits payable

2018/19				2019/20		
Pensions £000	Commutation of pensions and lump sums £000	Lump sum death benefits £000		Pensions £000	Commutation of pensions and lump sums £000	Lump sum death benefits £000
71,791	12,831	1,355	Administering Authority	**74,960**	**10,720**	**1,898**
108,880	20,611	3,745	Scheduled Bodies	**115,408**	**25,594**	**4,618**
12,194	2,395	62	Community Admission Bodies	**12,945**	**2,582**	**220**
7,039	2,119	432	Transferee Admission Bodies	**7,735**	**2,073**	**412**
707	378	5	Resolution Bodies	**821**	**161**	**30**
200,611	**38,334**	**5,599**		**211,869**	**41,130**	**7,178**

9.2 Contributions receivable

9.2.1 By category

Contributions receivable from employers are set out below:

2018/19 £000		2019/20 £000
57,799	**Employee's normal contributions**	**60,772**
	Employers' contributions	
146,065	Normal contributions	**154,216**
30,313	Deficit recovery contributions	**33,141**
5,609	Augmentation contributions	**4,363**
181,987	**Total employer contributions**	**191,720**
239,786		**252,492**

The terminology used in the Actuarial Report for 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.

9.2.2 *By type*

2018/19			2019/20	
Member £000	Employer £000		Member £000	Employer £000
15,475	49,525	Administering Authority	15,919	49,882
38,890	119,077	Scheduled Bodies	41,331	128,494
1,908	8,682	Community Admission Bodies	1,888	8,030
1,205	3,654	Transferee Admission Bodies	1,302	4,175
321	1,049	Resolution Bodies	332	1,139
57,799	181,987		60,772	191,720

9.3 Transfers in from other pension funds

2018/19 £000		2019/20 £000
-	Group transfers	
10,796	Individual transfers	12,253
10,796	Total	12,253

During 2019/20 (and 2018/19) no group transfers from other schemes were received.

9.4 Payments to and on account of leavers

2018/19 £000		2019/20 £000
687	Refunds of contributions	900
33	State scheme premiums	20
	Transfers out	
19,381	Group transfers	-
10,923	Individual transfers	23,313
31,024	Total	24,233

In 2019/20, no bulk transfers were made. 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.

10. Investment Income

10.1 By Type

2018/19 £000		2019/20 £000
32,488	Dividends from equities	26,991
-	Dividends from equity pooled funds	20,962
2,505	Private Equity income	2,182
17,301	Infrastructure / timberland income	16,362
10,100	Managed fund income	15,790
7,926	Income from pooled property investments	7,611
13,976	Net rent from properties	12,394
2,204	Interest from cash deposits	3,132
2,142	Other	903
88,642	**Total investment income showing net property rent**	**106,327**
	Add back:	
3,645	Property operating expenses	3,484
92,287	**Total investment income showing gross property rent**	**109,811**

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

2018/19 £000		2019/20 £000
17,214	Rental Income from investment property	15,738
-	Other Property income	140
(3,535)	Direct operating expenses arising from investment property	(3,484)
13,679	**Total**	**12,394**

10.3 Contractual rental receivable

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

2018/19 £000		2019/20 £000
15,733	Within one year	16,406
45,826	Between one and five years	53,461
47,553	Beyond five years	53,774
109,112	Total	123,641

The above disclosure has been reduced by a loss allowance of **3.2%** per annum (2018/19: 1.5%) 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 2020.

10.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2018	323,385	70,500	393,885
Additions	7,870	12,295	20,165
Disposals	(44,507)	-	(44,507)
Net gain/loss on fair value	16,232	(2,525)	13,707
Fair value at 31 March 2019	302,980	80,270	383,250
Additions	73,841	1,092	74,933
Disposals	(39,809)	-	(39,809)
Net gain/loss on fair value	(13,182)	(7,267)	(20,449)
Fair value at 31 March 2020	323,830	74,095	397,925

11. Management expenses

11.1 By type

2018/19 £000		2019/20 £000
2,860	Administration costs	3,299
44,372	Investment management expenses	50,522
1,689	Oversight and governance	1,496
48,921	Total	55,317

ACCESS ongoing costs were £74,000 for 2019/20 (2018/19: £116,000). These costs are shown under oversight and governance costs line of the above note.

In 2019/20 external audit costs were £40,000 of which £12,000 was rechargeable and relates to work undertaken to provide scheduled bodies on IAS 19 accounting disclosures (2018/19: £30,000 and £6,000 respectively).

11.2 Investment management expenses

2018/19 £000		2019/20 £000
43,201	Management fees	49,454
388	Custody fees	779
783	Transaction costs	289
44,372	**Total**	**50,522**

Custody fees are made up of fees paid to the Fund's Global Custodian, Northern Trust and other out of pocket custody expenses. These were **£303,000** and **£476,000** in 2019/20 respectively (£304,000 and £84,000 in 2018/19).

Investment transaction costs of **£289,000** were paid in 2019/20 (£783,000 in 2018/19). These were made up of transactions that have gone through the custody account of **£565,000** and for the first year an adjustment has also been made for any further costs reported by the Fund's Investment Managers in their Cost Transparency Initiative (CTI) returns, these amounted to a reimbursement back to the Fund of **£276,000**.

The Fund in 2018/19 also incurred transition costs of **£240,000** as a result of moving assets into sub funds managed by Link Solutions Limited, the ACCESS Pool Operator. No transition costs were incurred in 2019/20.

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:

2019			2020	
£m	%		£m	%
		Investments managed inside the ACCESS Pool		
507	7.2	Link Asset Solutions - Long term Global Growth Fund	591	9.0
536	7.7	Link Asset Solutions - Global Dividend Fund	447	6.8
489	7.0	Link Asset Solutions - Global Equity Fund	425	6.4
2,045	29.2	UBS Asset Management	1,753	26.6
3,577	**51.1**		**3,216**	**48.8**
		Investments managed outside of the ACCESS Pool		
122	1.7	Alcentra Ltd	136	2.0
670	9.6	Aviva Investors	637	9.6
335	4.8	Stewart Investors (formerly First State)	259	3.9
404	5.8	Goldman Sachs Asset Management International	401	6.1
347	5.0	Hamilton Lane	382	5.8
86	1.2	IFM Investors	92	1.4
73	1.0	JPMorgan Asset Management	70	1.1
1	-	Longview Partners	-	-
588	8.4	Marathon Asset Management Ltd	368	5.6
365	5.2	M&G Investments Alpha Opportunities	425	6.4
1	-	M&G Investments Financing Fund	-	-
202	2.9	Partners Group Management II S.à r.l (Infrastructure)	231	3.5
-	-	Partners Group Management II S.à r.l (Global Property)	31	0.5
217	3.1	Stafford Timberland Limited	243	3.7
10	0.2	Other	107	1.6
3,421	**48.9**		**3,382**	**51.2**
6,998	**100.0**		**6,598**	**100.0**

The large balance held under Other was mainly due to £81m of cash being held on a temporary basis, to finance an investment being made by the Fund on 1 April 2020.

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:

2018/19	Value at 1 April 2018	2018/19 Movement Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	Value at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	242,167	160,000	-	-	2,427	-	404,594
Equities							
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
Index unit linked life assurance policies	433,664	6	-	(63,000)	20,371	-	391,041
Property							
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
Private equity							
UK unquoted	7	-	-	-	(3)	-	4
Overseas unquoted	299,444	52,988	-	(88,892)	57,986	-	321,526
Infrastructure							
UK unquoted	1	-	-	-	-	-	1
overseas unquoted	297,755	66,434	-	(49,681)	41,506	-	356,014
Timber (Overseas unquoted)	109,869	98,955	-	(10,895)	14,428	-	212,357
Private Debt							
UK unquoted	29,676	-	-	(136)	864	-	30,404
Overseas unquoted	76,894	24,515	-	(15,081)	1,922	-	88,250
Other managed funds							
UK unquoted	264,399	105,015	-	(1,529)	(2,277)	-	365,608
Cash							
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
Derivative pending foreign currency contracts *	(27,570)						418
Other investment balances							
Assets							
Amounts receivable for sales of investments	30,932						60
Investment income due	5,771						7,892
Amounts receivable in respect of the Global Liquidity Fund	-						43
Liabilities							
Amounts payable for purchase of investments	(3,971)						(56)
Investment withholding tax payable	(143)						(153)
Amounts payable in respect of the Global Liquidity Fund	(981)						-
	6,480,513						6,998,144

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.

* *Investment managers operate in global markets and need to transact in different currencies in order to settle trades. At the end of the year, the outstanding balance of these trades are disclosed in Note 12.2.*

	Value at 1 April 2019	2019/20 Movement Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	Value at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	404,594	-	-	(693)	(3,177)	-	400,724
Equities							
UK quoted	65,343	7,416	-	(18,447)	(12,634)	-	41,678
Overseas quoted	812,994	156,495	-	(307,286)	(104,298)	-	557,905
UK unit trust life assurance policies	247,248	25,500	16,000	-	(53,675)	-	235,073
Overseas unit trust life assurance policies	809,471	49,501	(16,000)	-	(91,363)	-	751,609
Global unit life assurance policies	597,136	-	-	-	(115,322)	-	481,814
ACCESS pooled global equity funds	1,532,112	25,253	-	(7,037)	(87,471)	-	1,462,857
Index unit linked life assurance policies	391,041	-	-	(100,000)	(5,975)	-	285,066
Property							
UK properties (freehold)	302,980	73,841	-	(39,809)	(13,182)	-	323,830
UK properties (leasehold)	80,270	1,092	-	-	(7,267)	-	74,095
Global Property	-	30,725	-	(181)	816	-	31,360
Property unit trusts	226,626	3,781	-	(53,898)	(11,057)	-	165,452
Private equity							
UK unquoted	4	-	-	-	-	-	4
Overseas unquoted	321,526	51,753	-	(87,505)	54,574	-	340,348
Infrastructure							
UK unquoted	1	-	-	-	-	-	1
overseas unquoted	356,014	26,358	-	(19,967)	30,558	-	392,963
Timber (Overseas unquoted)	212,357	16,242	-	(3,780)	9,359	-	234,178
Private Debt							
UK unquoted	30,404	-	-	(143)	(4,569)	-	25,692
Overseas unquoted	88,250	41,268	-	(20,111)	488	-	109,895
Other managed funds							
UK unquoted	365,608	84,937	-	(2,508)	(22,793)	-	425,244
Cash							
Cash deposits held at the custodian/other							
Sterling	83,669	-	-	-	-	101,996	185,665
Foreign currency	62,292	-	-	(3,424)	3,424	2,207	64,499
	6,989,940	594,162	-	(664,789)	(433,564)	104,203	6,589,952
Derivative pending foreign currency contracts	418	481	-	(1,156)	257	-	-
	6,990,358	594,643	-	(665,945)	(433,307)	104,203	6,589,952
Other investment balances							
Assets							
Amounts receivable for sales of investments	60						1,664
Investment income due	7,892						7,269
Amounts receivable in respect of the Global Liquidity Fund	43						460
Liabilities							
Amounts payable for purchase of investments	(56)						(1,207)
Investment withholding tax payable	(153)						(193)
	6,998,144						6,597,945

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.

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 2019			31 March 2020	
£000	%		£000	%
507,346	7.2%	Link Fund Solutions LTGG Fund	**590,709**	**9.0%**
597,136	8.5%	UBS Asset Management Life All World Equity Tracker	**481,814**	**7.3%**
535,454	7.7%	Link Fund Solutions Global Dividend Fund	**447,157**	**6.8%**
364,778	5.2%	M&G Alpha Opportunity Fund	**425,244**	**6.4%**
489,312	7.0%	Link Fund Solutions Global Equity Fund	**424,991**	**6.4%**
404,594	5.8%	Goldman Sachs Strategic Absolute Fund	**400,724**	**6.1%**
370,615	5.3%	UBS Asset Management Life USA Equity Tracker Hedged	**333,557**	**5.0%**
391,041	5.6%	UBS Asset Management Life Over 5 Year Index Tracker	**285,066**	**4.3%**

13. Additional Voluntary Contributions (AVC) Investments

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

2018/19 £000		2019/20 £000
7,302	Value of AVC fund at beginning of year	**8,416**
1,982	Employees contributions	**1,569**
247	Investment income and change in market value	**(191)**
(1,115)	Benefits paid and transfers out	**(1,011)**
8,416		**8,783**

13.2 Analysis of AVC investments by Provider

2018/19 £000		2019/20 £000
50	Utmost (formerly Equitable Life)	**64**
3,768	Prudential	**4,651**
4,598	Standard Life	**4,068**
8,416		**8,783**

14. Current assets and liabilities

14.1 Analysis of current assets

31 March 2019 £000		31 March 2020 £000
	Cash Balances	
627	Cash at bank	**1,737**
14,148	Cash on short term deposits within 3 months	**15,012**
14,775		**16,749**
	Debtors and payments in advance	
4,475	Contributions due – employees	**4,811**
15,213	Contributions due – employers	**15,524**
1,872	Sundry debtors	**1,473**
21,560		**21,808**
36,335	**Total**	**38,557**

14.2 Analysis of long-term debtors

31 March 2019 £000		31 March 2020 £000
1,514	Other employer contributions due	**228**
73	Reimbursement of lifetime allowances	**311**
1,587	**Total**	**539**

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 of **£311,000** has been raised in 2019/20 in this regard (£73,000 in 2018/19).

14.3 Analysis of current liabilities

31 March 2019 £000		31 March 2020 £000
	Unpaid benefits and other current liabililities	
(791)	Contributions due – employers	**(1,460)**
(2,674)	Investment manager fees payable	**(1,883)**
(5,295)	Benefits payable	**(5,139)**
(18)	Other	**(934)**
(8,778)	**Total**	**(9,416)**

14.4 Contingent liabilities and contractual commitments

As at 31st March 2020, the Fund had a commitment to contribute a further **£1,192m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber and private debt (31st March 2019: £512.585m). 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. Related party transactions

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

15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£3.298m** in 2019/20, of which £545,000 was outstanding at 31 March 2020 (2018/19: £3.001m, of which £448,000 was outstanding at 31 March 2019) 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 **£49.882m** to the Fund in 2019/20 (2018/19: **£49.525m**). No significant amounts were owing to the Fund as at the end of the year.

The Fund has in place a separate bank account arrangement with the County Council. 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 2019. This service is provided to the Fund at a cost of **£28,000** (2018/19: £27,000).

During the year to 31st March 2020, the Pension Fund had an average investment balance of **£21.097m** (2018/19: £31.296m) earning **£110,000** interest (2018/19: £176,000).

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

15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2015, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2019/20, 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	

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 2019/20, 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 *(until June 2019)*
	▪ D. Hurst
	▪ S. Roberts *(from September 2019)*
	▪ J. Sheehy *(from September 2019)*

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2019/20 and were also members of the Fund were the Executive Director for Corporate and Customer Services and Director for the Essex Pension Fund up until 31 July 2019, the Executive Director, Finance and Technology, the Interim Director for Essex Pension Fund and three personnel covering the Head of Essex Pension Fund position from 1 August 2019.

During 2019/20 approximately 2% of the Executive Director for Corporate and Customer Services and Executive Director, Finance and Technology time was spent on the Pension Fund, with the other officers spending 100% of their time in this way.

The short-term benefits (pay) associated with the time spent by these staff working on the Fund and the current service cost i.e. the increase in the value of the Fund's future pension liabilities arising out of the employees on-going membership of the Fund are shown below:

2018/19 £000		2019/20 £000
161	Short term benefits	145
105	Current service costs	153
266		**298**

16. Agency Services

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

2018/19 £000		2019/20 £000
1,456	Adminstering Authority	1,443
5,209	Scheduled Bodies	5,166
138	Community Admission Bodies	89
2	Resolution Bodies	2
20	Former employers	20
6,825	**Total**	**6,720**

17. Fair value – Basis of valuation

17.1 Fair value hierarchy

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** – Assets and liabilities at Level 1 are those 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** – Assets and liabilities at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Assets and liabilities at Level 3 are those where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

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

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

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

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

The table overleaf 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.

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Stewart Investors/ Marathon Asset Management Ltd	Market Quoted Equities	Level 1	Published Bid Market Price	N/A	N/A
Link Asset Solutions	Pooled global equities funds	Level 1	Net Asset Value / Bid Market Price	Net Asset Values	N/A
Goldman Sachs Asset Management International	Fixed interest securities	Level 1	Fixed interest securities are valued at a market value based on current yields.	Net Asset Values	N/A
UBS Asset Management	Equities/Indexed Linked Life Assurance Policies	Level 2	Valuation technique with quoted prices of a similar asset	Price of recent transactions for identical input	Significant change in economic circumstances or time lapse since the transaction took place
M&G Investments Alpha Opportunities	Other managed funds	Level 2	The prices are published reflecting the NAV at each dealing point but are not exchange traded	Price of recent transactions for identical input	Significant change in economic circumstances or time lapse since the transaction took place
All	Forward Foreign Exchange Derivatives	Level 2	Market exchange rates at the year end	Price of recent transactions for identical input	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period.
Aviva Investors	Direct property	Level 3	Direct Property independently valued by Knight Frank LLP in accordance with the current editions of Royal Institution of Chartered Surveyors' (RICS) Valuation Standards, which incorporate the International Valuations Standards, and the RICS UK National Supplement. Valuation derived from using comparable recent market	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth, covenant strength for existing tenancies, Discount rate Land/building valuation surveys	Valuations are reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation - Global Standards. Asset values can range between (+/-20%), significant changes in Yield Movement (+/-10%) and Estimated rental value movement (+/-10%) have been identified as key sensitivities. These risks also reflect the increased uncertainty

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
			transactions on arm's length terms, where available, and other appropriate techniques such as the use of rental yields and rental values.		due to the possible impact of Novel Coronavirus (COVID-19) and its impact on the property market.
Partners Group Management II Sea r.l	Global property	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last know NAV and adjusted for subsequent capital calls and distributions and other relevant information provided	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth, covenant strength for existing tenancies, 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 process and volume of sales and purchases. Assets values can range between (+14.2% / -14.2%)
Aviva Investors	Property unit trusts	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund.	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth Covenant strength for existing tenancies, Discount rate Land/building valuation surveys	The following sensitivities have been identified Asset values can range between +/-20% Significant changes in Yield Movement (+/-10%) and Estimated rental value movement (+/-10%) have been identified as key sensitivities These risks also reflect the increased uncertainty due to the possible impact of Novel Coronavirus (COVID-19) and its impact on the property market.
Partners Group Management II S.à r.l	Infrastructure	Level 3	Investments in the funds are valued based on the Fund's share of the net assets. Audited valuations are carried out annually on the investments. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and adjustments to current prices for similar assets, valuation	Valuations can 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, fair value adjustments, discount factors used, EBITDA and recent transaction prices. Asset values can range between (+4.1% /-4.1%).

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
			next two columns.	techniques.	
JP Morgan Asset Management	Infrastructure	Level 3	Investments are valued based on the Fund's share of the net assets Audited valuations are carried out annually on the investments. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	Valuations can 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, changes in interest rates, inflation, discount rate, price weaknesses. As a result, assets values can range between (+5.1% /-5.8%).
IFM Investors	Infrastructure	Level 3	The investments are valued based on the Fund's share of the net assets. Audited valuations are carried out annually on the investments. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, tax rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and 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 Fund's reporting date. Key sensitivities identified are changes in gross domestic product, base rates, inflation and discount rates. Asset values can range between (+2.5/-2.5%).
Hamilton Lane	Private Equity	Level 3	Investments in private equity funds are valued based on the Fund's share of the net assets, using the latest financial statements published by the respective fund managers in accordance with the appropriate industry guidelines. Limited partnerships are valued at Fair value based on the net asset value ascertained from periodic	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, gross domestic product, inflation, interest rates, discount rates, 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 gross domestic product, inflation, interest rates, and discount rates. Due to the increased uncertainty caused by the Novel Coronavirus (COVID-19), we reduced the market value of

Fund Manager	Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
			valuations provided by those controlling the partnership. The net assets value of the funds are determined using the valuation techniques such as discounted cash flows, earning multiples etc, and these use the inputs detailed in the next two columns.		private equity by 4.95% based on a regression analysis model of historical quarterly private equity fund valuations against relevant public market indices. Asset values can range between (+15%/-15%).
Stafford Timberlands Limited	Timber	Level 3	Valuation technique is based on accepted valuation techniques that include discounted cashflow and multiple earnings.	Management's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, discount rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), 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 Fund's reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis. Asset values can range between (+5%/-5%)
Alcentra Limited	Private Debt	Level 3	Net Asset Value Market approach using comparable trade multiples. They 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 management cash flow projections, credit risk, interest rates, EBITDA, direct lending loans values, discount rates, marketability.	Material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, EBITDA multiple, and discount rates used (e.g. discounts offered for lack of marketability). Asset values can change between (+7,2%/-7.2%).

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 2019				Values as at 31 March 2020		
Level 1 Quoted market prices £000	Level 2 Using observable inputs Restated £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
			Financial assets			
2,823,039	2,421,720	1,144,897	Fair value through profit and loss	2,472,558	2,178,836	1,152,133
2,823,039	2,421,720	1,144,897		2,472,558	2,178,836	1,152,133
			Non financial assets			
-	-	473,533	Fair value through profit and loss	-	-	545,685
			Financial liabilities			
(209)	(10,798)	-	Fair value through profit and loss	(1,400)	(31)	-
(209)	(10,798)	-		(1,400)	(31)	-
2,822,830	2,410,922	1,618,430	**Total net assets per level**	2,471,158	2,178,805	1,697,818
		6,852,182	**Total Net Assets**			6,347,781

Financial assets (Level 2 and Level 3) have been restated in the prior year. This is due to Property Unit Trusts originally being categorised as Level 2 assets when they should have been categorised as Level 3 assets. As a result, the tables in notes 17.3 and 17.4 have also been restated.

17.2 Transfers between hierarchy levels

No reclassifications were made as at 31st March 2020 or as at 31st March 2019.

17.3 Reconciliation of fair value measurements within Level 3

2019/20	Value at 1 April 2019 Restated £000	2019/20 Movement: Transfer to Level 3 £000	Purchases £000	Net Transfers £000	Sale Proceeds £000	Unrealised profit/ loss £000	Realised profit/ loss £000	Value at 31 March 2020 £000
Properties								
UK properties (freehold)	302,980	-	73,841	-	(39,809)	(13,329)	147	323,830
UK properties (leasehold)	80,270	-	1,092	-	-	(7,267)	-	74,095
Global Property	-	-	30,725	-	(181)	816	-	31,360
Property unit trusts	226,626	-	3,781	-	(53,898)	(31,624)	20,567	165,452
Private equity								
UK unquoted	4	-	-	-	-	-	-	4
Overseas unquoted	321,526	-	51,753	-	(87,505)	(3,395)	57,969	340,348
Infrastructure								
UK unquoted	1	-	-	-	-	-	-	1
Overseas unquoted	356,014	-	26,358	-	(19,967)	29,059	1,499	392,963
Timber (Overseas unquoted)	212,357	-	16,242	-	(3,780)	9,169	190	234,178
Private Debt								
UK unquoted	30,404	-	-	-	(143)	(4,569)	-	25,692
Overseas unquoted	88,250	-	41,268	-	(20,111)	(564)	1,052	109,895
	1,618,432	-	245,060	-	(225,394)	(21,704)	81,424	1,697,818

Property unit trusts value at 1 April 2019 has been restated (see note 17.1 for details).

17.4 Sensitivity of assets valued at Level 3

In consultation with its institutional consultants, Hymans Robertson and the Fund's investment 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 17.1 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 2020.

Value at 1 April 2019 Restated £000	Assessed valuation range (+/-)	Value on increase Restated £000	Value on decrease Restated £000		Value at 1 April 2020 £000	Assessed valuation range (+/-)	Value on increase £000	Value on decrease £000
383,250	10.0%	421,575	344,925	Freehold and leasehold properties	397,925	20.0%	477,510	318,340
-	10.0%	-	-	Global property	31,360	14.2%	35,813	26,907
226,626	10.0%	249,289	203,963	Property unit trusts	165,452	20.0%	198,542	132,362
321,530	15.0%	369,760	273,301	Private equity	340,352	15.0%	391,405	289,299
356,015	7.5%	382,716	329,314	Infrastructure	392,964	4.1%	409,076	376,852
212,357	5.0%	222,975	201,739	Timber (overseas unquoted)	234,178	5.0%	245,887	222,469
118,654	12.6%	133,604	103,704	Private debt	135,587	7.2%	145,349	125,825
1,618,432		1,779,919	1,456,946		1,697,818		1,903,582	1,492,054

Prior year values for Property Unit Trusts have been restated (see Note 17.1 for further details).

The assessed valuation ranges shown in the above table were provided by the relevant fund managers, with the exception of:

- Global property and Private debt – In the absence of information from the fund managers, valuation range was based on percentages supplied by Hymans Robertson.
- Infrastructure – The valuation range us a weighted average of the information provided by the three individual Infrastructure managers and their base strategic allocations.

Further information on the assessed valuation ranges can be found in Note 17.1.

18. Financial Instruments

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

18.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings.

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

The debtor figure of **£22.347m** as at 31st March 2020 (2018/19: £23.147m) excludes statutory debtors of **£21.958m** (2018/19: £22.895m).

The creditor figure of **£9.416m** as at 31st March 2020 (2018/19: £8.778m) excludes statutory creditors of **£6.599m** (2018/19: £6.086m).

In addition, financial assets held by the Fund on a direct basis, for example direct property and infrastructure, have also been excluded from the below note, as they are not financial instruments.

31 March 2019			Asset type	31 March 2020		
Fair value through profit and loss £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
			Financial assets			
404,594	-	-	Fixed interest securities	400,724	-	-
4,064,304	-	-	Equities	3,530,936	-	-
391,041	-	-	Index linked securities	285,066	-	-
226,626	-	-	Property unit trusts	165,452	-	-
321,530	-	-	Private equity	340,352	-	-
265,731	-	-	Infrastructure	276,564	-	-
212,357	-	-	Timber	234,178	-	-
118,654	-	-	Private debt	135,587	-	-
365,608	-	-	Other managed funds	425,244	-	-
11,216	-	-	Derivative contracts	31	-	-
-	160,736	-	Cash deposits	-	266,913	-
7,995	-	-	Other investment balances	9,393	-	-
-	252	-	Debtors	-	389	-
6,389,656	160,988	-		5,803,527	267,302	-
			Financial liabilities			
(10,798)	-	-	Derivative contracts	(31)	-	-
(209)	-	-	Other investments balances	(1,400)	-	-
-	-	(2,692)	Creditors	-	-	(2,817)
(11,007)	-	(2,692)		(1,431)	-	(2,817)
6,378,649	160,988	(2,692)	**Balance at the end of the year**	5,802,096	267,302	(2,817)
		6,536,945	**Total**			6,066,581

18.2 Net gains and losses on financial instruments

Gain / (loss) 2018/19 £000		Gain / (loss) 2019/20 £000
	Financial assets	
455,488	Fair value through profit and loss	(436,635)
5,133	Amortised cost - unrealised gains	3,424
460,621	**Total**	(433,211)

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

The net gains and losses differ from the Fund Account by gains and losses of financial assets held directly. These gains and losses totalled **£96,000** as at 31st March 2020 (31st March 2019: £31.689m).

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 overall risk management strategy rests with the Essex Pension Fund Strategy Board (PSB). Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

19.2 Market risk

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

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Investment Strategy Statement which is available from the website 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.

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 2020/21 and 2019/20. Prior year figures have been restated to reflect the removal of non-financial assets.

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

31st March 2019 Potential Market movement %	Asset type	31st March 2020 Potential Market movement %
0.5%	Cash	**0.3%**
8.86%	Fixed interest securities	**8.0%**
16.6%	UK equities	**27.5%**
16.9%	Overseas equities	**28.0%**
7.2%	UK index linked bonds	**7.4%**
14.3%	Pooled property unit trusts	**14.2%**
28.3%	Private equity	**28.4%**
11.8%	Infrastructure funds	**11.1%**
11.8%	Timber	**20.1%**
12.8%	Private debt	**7.2%**
11.8%	Other managed funds	**11.1%**

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 2019 Restated £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2020 £000	Percentage change %	Value increase £000	Value decrease £000
160,736	0.5%	161,540	159,932	Cash and equivalents	266,913	0.3%	267,714	266,112
				Investment portfolio assets				
404,594	8.86%	440,441	368,747	UK fixed interest securities	400,724	8.0%	432,782	368,666
65,343	16.6%	76,190	54,496	UK equities	41,678	27.5%	53,139	30,217
812,994	16.9%	950,390	675,598	Overseas equities	557,905	28.0%	714,118	401,692
247,248	16.6%	288,291	206,205	UK equities unit insurance policies	235,073	27.5%	299,718	170,428
809,471	16.9%	946,272	672,670	Overseas equities insurance policies	751,609	28.0%	962,060	541,158
597,136	16.9%	698,052	496,220	Global equities insurance policies	481,814	28.0%	616,722	346,906
1,532,112	16.9%	1,791,039	1,273,185	ACCESS pooled global equity funds	1,462,857	28.0%	1,872,457	1,053,257
391,041	7.2%	419,196	362,886	UK index linked bonds	285,066	7.4%	306,161	263,971
226,626	14.3%	259,034	194,218	Pooled property unit trusts	165,452	14.2%	188,946	141,958
321,530	28.3%	412,523	230,537	Private equity	340,352	28.4%	437,012	243,692
265,731	11.8%	297,087	234,375	Infrastructure	276,564	11.1%	307,263	245,865
212,357	11.8%	237,415	187,299	Timber	234,178	20.1%	281,248	187,108
118,654	12.8%	133,842	103,466	Private Debt	135,587	7.2%	145,349	125,825
365,608	11.8%	408,750	322,466	Other managed funds	425,244	11.1%	472,446	378,042
418	-	418	418	Net derivative assets	-	-	-	-
6,531,599		7,520,480	5,542,718	Total assets available to pay benefits	6,061,016		7,357,135	4,764,897

19.5 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 UBS Asset Management and bond mandates with M&G Investments (M&G) 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 2019 £000	Asset type	Asset value as at 31 Mar 2020 £000
145,961	Cash and cash equivalents	250,164
14,775	Cash balances	16,749
404,594	Fixed interest securities	400,724
391,041	Index-linked securities	285,066
118,654	Private debt	135,587
1,075,025	Total assets	1,088,290

19.6 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 1% 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 2019 £000	Impact of 1% increase £000	Impact of 1% decrease £000	Asset type	Asset value as at 31 Mar 2020 £000	Impact of 1% increase £000	Impact of 1% decrease £000
145,961	145,961	145,961	Cash and cash equivalents	250,164	250,164	250,164
14,775	14,775	14,775	Cash balances	16,749	16,749	16,749
404,594	400,548	408,640	Fixed interest securities	400,724	396,717	404,731
391,041	391,041	391,041	Index-linked securities	285,066	285,066	285,066
118,654	117,467	119,841	Private debt	135,587	134,231	136,943
1,075,025	1,069,792	1,080,258	Total change in assets available	1,088,290	1,082,927	1,093,653

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.

19.7 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.

The following table summarises the Fund's currency exposure as at 31 March 2020 and 31 March 2019:

31 Mar 2019 £000	Asset type	31 Mar 2020 £000
812,994	Overseas equities quoted	**557,905**
809,471	Overseas unit life assurance policies	**751,609**
597,136	Global unit life assurance policies	**481,814**
1,532,112	ACCESS pooled global equity funds	**1,462,857**
-	Global property	**31,360**
321,526	Overseas private equity	**340,348**
356,014	Overseas infrastructure	**392,963**
212,357	Overseas timber	**234,178**
88,250	Overseas private debt	**109,895**
62,292	Foreign currency	**64,499**
4,792,152	**Total oversea assets**	**4,427,428**

19.8 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%** (2018/19: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2018/19: 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 2019 £000	Change in year in the net assets to pay benefits +13% £000	Change in year in the net assets to pay benefits -13% £000	Asset type	Asset value as at 31 Mar 2020 £000	Change in year in the net assets to pay benefits +13% £000	Change in year in the net assets to pay benefits -13% £000
812,994	918,683	707,305	Overseas equities quoted	**557,905**	**630,433**	**485,377**
809,471	914,702	704,240	Overseas unit life assurance policies	**751,609**	**849,318**	**653,900**
597,136	674,764	519,508	Global unit life assurance policies	**481,814**	**544,450**	**419,178**
1,532,112	1,731,287	1,332,937	ACCESS pooled global equity funds	**1,462,857**	**1,653,028**	**1,272,686**
-	-	-	Global property	**31,360**	**35,437**	**27,283**
321,526	363,324	279,728	Overseas private equity	**340,348**	**384,593**	**296,103**
356,014	402,296	309,732	Overseas infrastructure	**392,963**	**444,048**	**341,878**
212,357	239,963	184,751	Overseas timber	**234,178**	**264,621**	**203,735**
88,250	99,723	76,778	Overseas private debt	**109,895**	**124,181**	**95,609**
62,292	70,390	54,194	Foreign currency	**64,499**	**72,884**	**56,114**
4,792,152	**5,415,132**	**4,169,173**	**Total change in assets available**	**4,427,428**	**5,002,993**	**3,851,863**

19.9 Credit Risk

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

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

19.10 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 2020 is provided in Note 14.

19.11 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 M&G and GSAM. The former also manage a financing fund which is in wind up.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31st March 2020, the average credit quality of the M&G bond mandate was **BBB+** rated (**BBB+** rated as at 31st March 2019). The portfolio had suffered six defaults since inception, one within the financial year ended 31st March 2020 (none as at 31st March 2019).

The portfolio managed by GSAM as at 31st March 2020 had an average credit quality of **AAA** (AA+ rated as at 31st March 2019) and has suffered twelve defaults since inception, none as at 31st March 2020 (with one occurring in 2018/19).

19.12 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 2019) 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 2020 **£16.749m** (31st March 2019: £14.775m) 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 2020, the total balance held in the Sterling and US dollar AAA money market funds was **£224.984m** with a smaller balance of **£25.180m** held in the custodian current account (31st March 2019: £117.940m and £28.021m 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.

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

31 March 2019			31 March 2020	
Rating	£000		*Rating*	£000
		Cash managed externally		
		Cash held on deposit (GLF)		
AAA	66,717	BNP Paribas Investment Partners	*AAA*	**96,022**
AAA	51,223	Northern Trust	*AAA*	**128,962**
		Cash held in Current Account		
AA-	28,021	Northern Trust	*AA-*	**25,180**
	145,961	**Total cash managed externally**		**250,164**
		Cash managed internally		
		Cash held on fixed term		
AA	5,000	Thurrock Council	*AA*	**-**
AA	-	Peterborough Council	*AA*	**5,006**
		Cash held on deposit		
AAA	-	Blackrock	*AAA*	**10,000**
AA-	4,092	HSBC	*AA-*	**3**
A	-	Santander UK	*A*	**1**
AA-	5,055	Svenska Handelsbanken	*AA-*	**3**
		Cash held in Current Account		
A	628	Lloyds Bank plc	*A+*	**1,736**
	14,775	**Total cash managed internally**		**16,749**
	160,736	**Total**		**266,913**

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions. This is now reflected in the Pension Fund financial statements.

31 March 2019		31 March 2020 £000	Maximum limit per Financial Institution £000	Historical risk of default %	Estimated maximum exposure to default and uncollectability £000
	Cash managed externally				
	Deposit with bank and other financial institutions				
117,940	AAA Rated	**224,984**	80,000	0.0400%	90
28,021	AA Rated	**25,180**		0.0200%	5
145,961	**Total cash managed externally**	**250,164**			**95**
	Cash managed internally				
	Deposit with bank and other financial institutions				
-	AAA Rated	**10,000**	10,000	0.0400%	4
14,147	AA Rated	**5,012**	7,500	0.0200%	1
628	A Rated	**1,737**	5,000	0.0500%	1
14,775	**Total cash managed internally**	**16,749**			**6**
160,736	**Total cash**	**266,913**			**101**

Whilst the Fund has a cash limit of **£80m** for financial institutions within the Treasury Management Strategy, there is a facility to exceed this limit on a temporary basis when deploying assets.

19.13 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they full 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 2020 had immediate access to its pension fund cash holdings held internally and externally of **£266.913m** (31st March 2019: £160.736m). 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.

19.14 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31st March 2020 Northern Trust had **$10.8 trillion** of assets under custody (31st March 2019: $8.2 trillion) and had a credit rating of **AA-** (31st March 2019: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

20. Events after the Balance Sheet date

The Statement of Accounts was certified by the Executive Director, Finance and Technology on **30 November 2020**. Events taking place after this date were not reflected in the financial statements or notes.

21. Further information

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

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1QH

Telephone 03330 138501
E-mail fund.manager@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: ▪ Amounts set aside from revenue resources to repay external loans; ▪ The financing of capital payments from capital receipts and revenue reserves; and ▪ The consolidation of gains arising from the revaluation of Property, Plant and Equipment prior to 1 April 2007.
Capital expenditure	This is expenditure on the acquisition of Property, Plant and Equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of Property, Plant and Equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.
Capital financing requirement	This is a measure of the Council’s underlying need to borrow for capital financing purposes.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for

Term	Explanation
	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.
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.

Term	Explanation
Employee benefits	Employee benefits include wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees.
Existing Use Value	A valuation method that estimates amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction and disregarding potential alternative uses for the asset.
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 loses 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 ability to dispose of the investment. Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.
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.

Term	Explanation
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	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).
Past service cost	The increase in pension liabilities arising from a current year pension scheme amendment or a curtailment, whose effect relates to years of service earned in earlier years.
Pooled Budget	A type of partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services.
Precept	The amount the County Council requires the City, Borough and District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium	Arises from prematurely repaying a loan where the prevailing interest rate is below the rate of interest payable on the loan being repaid. The differential between the two rates is paid to the lender, in the form of a 'premium' arising from early settlement of the loan.
Private Finance Initiative (PFI)	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
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.

Term	Explanation
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.
Return on plan assets	Interest, dividends and other income derived from the Local Government Pension Scheme's assets (excluding amounts included in net interest on the net defined benefit liability), together with realised and unrealised gains or losses on those assets, less costs of managing the assets and any taxes payable.
Reserves	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 government grant	These represent central government financial support towards local authority services, which the Government wishes to target.
Surplus properties	Properties not being used to deliver services but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.
Termination benefits	Termination benefits are payable 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.

Term	Explanation
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

Introduction

This statement summarises the outcome of Essex County Council's (ECC) review of the governance arrangements that have been in place during 2019/20.

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 comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which ECC is controlled and governed. This was reviewed in February 2020 in line with current CIPFA guidance and the code of governance external webpage was 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.

The review demonstrates that the arrangements provide satisfactory assurance and continue to be regarded as fit for purpose in accordance with the governance framework. Detailed findings are outlined under points 1 – 20 below:

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 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. One standards complaint was referred to the Committee during 2019/20, which considered it on 24 July 2019. Three further complaints were dealt with by the Monitoring Officer. A revised investigations and hearings process was approved by the Audit, Governance and Standards Committee in December 2019.

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 for Councillors and employees. 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 subsequently after the by election in October 2019, and all members have been 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. 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 counter fraud service was independently audited in 2019/20. The audit's objective was to assess whether the Counter Fraud Team has effective proactive and reactive processes to deter, prevent, detect, and investigate and prosecute, where appropriate, potentially fraudulent and corrupt behaviour. The overall opinion given was satisfactory assurance.

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 ECC 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 Finance and Technology 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.

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 April and May 2020, collated and analysed. The organisation's 2019/20 Service Assurance Statements returned a satisfactory 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.

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 'request information' webpage 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. ECC publishes 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 and senior salaries.

The Vision for Essex, developed with partners and ECC's Organisational Strategy (see section 5) outlines 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. An Internal Audit review of Complaints Handling in 2019/20 gave an overall opinion of Satisfactory Assurance.

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 2019/20 outlines how ECC communicates with all sections of the community, employees and stakeholders.

A budget consultation was undertaken during November and December 2019, for 4 weeks. It was open to the public and promoted through social media, print media, business, voluntary and charity sector networks.

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.

The Petitions Policy is available online. In 2019/20 ECC received 74 petitions.

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.

A group of officers hold an oversight role for all consultations that ECC is currently undertaking or planning to undertake. 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. All consultations are signed off by cabinet members prior to release.

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.

ECC has been working collaboratively with adults with an experience of disability to review current service user groups and explore how working differently together might look in the future, to 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 new county-wide Local learning disability groups called Ability Before Disability (AB4D). These groups are completely user-focused and aim empower and enable adults with a Learning Disability and autism to be involved in meaningful engagement activity. There is also A Collaboration In Action Forum, which has representatives across all disabilities, who meet with senior ECC officers and members to set a forward plan for co-production and engagement activity and discuss issues that are important to people with disabilities across Essex communities. ECC also commissioned a provider who will work with the Research and Insight team to establish a new citizens panel, which will aim to have a representative sample of Essex residents who are interested in taking part in engagement and co-production activity, which will help us to create an on-going dialogue with Essex citizens and will support recruitment for research and engagement activity across the Council.

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.

A Vision for Essex called 'the Future of Essex' is available online. The Essex vision was co-created alongside partners in 2017 and sets out ambitions for the County until 2035. It comprises a set of ambitions which can only be delivered through effective, joined-up partnership. ECC is clear that 'whole system thinking' is the key to improving public services, reducing costs to taxpayers and getting the best outcomes for residents.

6. Translating the vision into courses of action for the authority, its partnerships and collaborations

The Organisation Strategy 2017-21 can be found online, this articulates ECC's strategic aims and priorities and integrates the authority's Equality objectives.

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 2018-22 was considered and endorsed by the Health and Well-being Board in July 2018 and at Cabinet in September 2018.

Further detail in terms of partnerships and collaborations can be found in section 20.

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 reports are reviewed and signed off by the S151 Officer and the Monitoring Officer to ensure the financial impact of any decision is properly recognised before that decision is taken, and the Council's decisions are lawful.

All agendas, minutes and decisions taken by Cabinet members are available to the public through ECC's website. The 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 Leadership Team to review the quality of reports and ensure they are easy 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 decision making, 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).

In 2019/20 there were 182 decisions requiring an Equality Impact Assessment, 169 or 92.9% had the assessment completed.

ECC has a robust Data Quality Strategy in place, it will be reviewed in 2020 in line with the introduction of a new Information Governance Policy Booklet which is being designed to streamline the presentation and communication of these policies.

ECC's decision making processes were the subject of an Internal Audit review in 2019, the final report, issued in December 2019 gave a 'Good Assurance' opinion and found that there are good processes in place so that decisions are made in line with the Constitution's requirements of who makes the decision and that such decisions are made openly and transparently with evidence of required consultation and equality analyses.

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 measures progress against the goals set in the organisation strategy. Alongside this ECC publishes the detailed data in the annual performance tables. The 2018/19 report can be found online, and the 2019/20 report will be published later in the year.

Corporate Governance issues are monitored in a quarterly performance report to the Corporate Governance Steering Board. For 2020/21 ECC will be introducing an Organisational Health report, it will set out information on key themes relevant to Organisational Health and Assurance on a quarterly basis. It is intended to be a single, authoritative report setting out key issues for senior officers and members.

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 2019/20:

- Social Worker of the Year awards, November 2019:
  - Team Leader of the year – finalist
  - Social worker of the year – finalist and silver (second place) winner

  - Social worker of the year – finalist and winner
  - Newly Qualified Social worker of the year – finalist

- Children and Young People Now awards, November 2019:
  - ESCA – Recruitment and professional development team of the year – finalist
  - Powers Project (Presenting Opportunities with Emotional Resilience) – Youth Justice Award
- Book Industry Communication accreditation achieved for 2019/20
- CILIP 2019 Excellence in Prison Libraries Award – awarded for the Family Library Time project
- Reaccredited as Excellent in the Local Government Association's Equalities Framework
- ECC retained ranking as seventh most productive council in the IMPOWER Report 2019
- Essex Cares Limited achieved an overall outcome of Outstanding after inspection by the Care Quality Commission (CQC) for South East Essex regulated services
- The Essex Design Guide won the 2019 Planning awards in June 2019
- The Assurance Team won team of the year at the ALARM Risk awards
- The Provider Quality Innovation Team won the Improving Care for Older People at the Patient Safety Awards in June 2019
- The Superfast Essex programme won the connectivity project of the year in the national Connected Britain Awards in June 2019
- The Pension Fund won the Scheme Governance Award at the Local Authority Pension Fund Awards in September
- All ECC's Country Parks won Green Flag awards in 2019
- Highways Team won the Best Use of New Technology in the Highways Industry award at the 2019 Highways Awards
- Peer review of Finance commended the strong financial management arrangements of the authority

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 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 April - July 2019 was the Executive Director for Corporate and Customer Services. From August 2019 it was the Executive Director for Finance and Technology.

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

For 2019/20 the Monitoring Officer was the Director, Legal and Assurance and both the Head of Legal and (other than when the substantive postholder was away from her role) 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 2019/20 the Head of the Paid Service was the Chief Executive.

13. Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The Member Development Steering Group takes ownership of members' development and is responsible for shaping the Member Development Strategy and Programme. ECC has held Member Development Charter Plus status since November 2014, this was reaccredited in March 2018 and, more recently, ECC passed a mid-point review in September 2019.

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 2019/20 it was identified that the take up of the GDPR online training for members was low and a number of training sessions were arranged. Compliance now stands at 79%.

In November 2018 ECC launched a People Plan – a new workforce strategy which sets out how it 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

In November 2019 ECC launched a new Learning Platform called 'My Learning'. This new platform offers a complete suite of learning resources for the workforce which can be accessed on-demand as well as part of structured learning programs. This move away from a "one-size fits all" approach to learning allows employees and managers to determine their individual learning pathways. Since the launch 6,400 courses and approximately 20,000 hours of training have been completed.

ECC also launched a new Management Development offer in November 2019, following the publication of a Management Framework a learning offer was developed which supports the development and strengthening of the key skills identified in the framework.

ECC is continuously reviewing the content of the Management Development offer to ensure it meets the organisation's needs and it is relevant to the changing context (for example, new collection of resources was published to support managers with managing remote teams). As part of this offer ECC successfully completed a pilot Senior Leadership Team Development program for one function and will design tailored programs for 3 more senior teams.

ECC has reviewed the approach to Performance Management for 2019/20, moving from a rigid annual process to a process that champions ongoing conversations, regular check-ins and a flexible approach to ensure teams can respond quickly to changing contexts and priorities.

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

ECC's Risk Management Strategy was fully reviewed and refreshed and approved at Audit, Governance and Standards Committee in January 2020. It is available to staff with an accompanying Risk Management Toolkit and these are reviewed at least annually to ensure they remain fit for purpose.

Comments on the effectiveness of the Council's risk arrangements are included in the Head of Assurance Annual Report which is presented to the Audit, Governance and Standards Committee in July 2020.

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 and determine appropriate action.

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 **240** referrals have been received and investigated by the Counter Fraud Team during 2019/20.

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 and the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

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 (JHOSC), looking at proposals arising from local Sustainability and Transformation Plans, one with Suffolk County Council and the other with Southend and Thurrock unitary authorities. In May 2020 an additional JHOSC meeting looked at the proposed relocation and rebuild of Princess Alexandra hospital and specifically whether the proposals constituted a substantial variation of service.

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 2019/20 scrutiny in ECC was supported by officers within Democratic Services and the Head of Democracy and Transparency is the Statutory Scrutiny Officer.

An update to the Government's Statutory Scrutiny Guidance was released in May 2019, this being the first update since 2006. The Scrutiny Board reviewed the updated guidance and were pleased to note that much of the best practice identified was already reflected in the Scrutiny function's working practises. The Board considered, however, that it was timely to support raising the profile of the work being undertaken and in March 2020 a regular 'Scrutiny Bulletin' was launched to progress this. The Board continues to discuss issues influencing the effectiveness of scrutiny.

More detail on the work of Scrutiny can be found in the Scrutiny Annual Report. The 2019/20 report can be found online.

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 2019/20. The Head of Assurance also has responsibilities for other operational services including Health & Safety, Risk Management, Insurance, Counter Fraud, Emergency Planning and Business Continuity. The arrangements for ensuring independence were outlined in the Audit Charter which was reviewed, updated and presented to the Audit, Governance and Standards Committee in January 2020.

Assurance arrangements for 2019/20 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit. The UK Public Sector Internal Audit Standards (PSIAS) provide clear standards for internal audit which ECC complies with. ECC undertakes an annual self-assessment against the standards and had an external review carried out by CIPFA in 2018 which demonstrated that compliance with the Standards in all material aspects.

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.

The Committee met 4 times during the 2019/20 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. In July 2019 it approved ECC's 2018/19 Statement of Accounts.

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 and to the Corporate Leadership Team via the quarterly Assurance Report. 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.

In 2019 the Audit, Governance and Standards Committee agreed to commission CIPFA to support the Committee to undertake a review of its effectiveness. Accordingly a CIPFA facilitator sent a questionnaire to all committee members and attended County Hall to interview the Chairman, a member of the committee and a number of ECC officers, including the Executive Director for Corporate and Customer Services, the Section 151 Officer, the Monitoring Officer and the Head of Assurance. He also listened to recordings of meetings of the Committee. On 9 March 2020 a workshop took place facilitated by CIPFA and as a result an action plan has been produce which was formally approved in July 2020.

19. Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.

The Chief Accountant and the Chief Audit Executive meet with the external auditors on a regular basis to discuss audit activity and ensure that appropriate support is being provided. Quarterly meetings are also held with the S151 Officer to review the audit plan and key recommendations.

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

'Essex Partners' is a working relationship between representatives of organisations who deliver services to the public across Essex. Governance of the shared vision is the responsibility of the Essex Partners Board, who meet at least 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.

In addition, 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 and Wellbeing Board are supported by Essex Strategic Coordination Group, who coordinate action responding to priorities identified by partners and partnerships across the whole Essex system.

ECC has made substantial steps forward in developing partnership work in Essex. Recent examples include:

- **Improving accountability and sharing learning**. Work has commenced on developing a systems dashboard to improve outcomes and accountability which will help demonstrate the links between partnership activity and delivery of shared ambitions. The score card will also support the sharing of learning and best practice across the system.
- **Reviewing our progress**. A 2-year review of the vision set out in the Future of Essex has been conducted. The review includes a visualisation of the insight and research headlines for 2020 against each of the seven vision ambitions as well as case studies showcasing work across the system.
- **Sharing knowledge.** Delivery of the 2019/20 Leading Greater Essex (LGE) programme. Over 45 leaders from across the system took part in LGE 2019/20. The programme comprised a combination of group learning and 100 Day Challenge team projects tackling "real" issues that impact people in Essex across boundaries. These have included mental health and suicide; homelessness and housing; infrastructure and communications.
- **Engaging citizens**. Research and Citizen Insight worked with partners to develop a toolkit to enable organisations to engage and collaborate with citizens in tackling some of our most

challenging issues. Chief Executives from across the system took part in conversations with residents and citizens on issues such as deprivation and mental health to develop strong networks across the system that facilitate communication, gather insight, develop and shape new ideas and solutions.

- **Working with faith organisations**. Essex County Council has also supported The Essex Faith Covenant. The 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). On 14th November 2019 an event was held at Anglia Ruskin University to celebrate the two-year anniversary of the launch of the Essex Faith Covenant. Given that faith communities play an important role in helping to manage demand on public services, it provided an opportunity to seek a progress update on how the work of the signatories of the Covenant has impacted on communities across the county. The event was held during Inter Faith Week with over 100 representatives from faith organisations, public services and the wider community attending. Going forward, the Essex Faith Covenant is looking to consolidate its position, extend its reach and continue to demonstrate how its influence is making a significant impact across the county.

The County Council is the accountable body for the South Essex Local Enterprise Partnership (SELEP), SELEP became a limited company as of February 2020. An ECC Internal Audit of SELEP received satisfactory assurance in 2020, it concluded that governance arrangements and decision making, financial and project management processes are designed and working satisfactorily.

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.

Each STP has an independent Chair, their role is to chair the partnership board meetings, to help local systems develop their visions and strategies, and to informally hold organisations to account for their commitment and collaborative working within the STPs.

Each STP also must have a joint accountable officer. This is a single accountable officer who oversees the clinical commissioning groups in the STP area. The role has been appointed to in

Suffolk and North East Essex but is still being finalised in Hertfordshire and West Essex and Mid and South Essex.

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. Its independent Chair is Professor William Pope. The ICS contains three "local alliances" to bring together commissioners and providers in a local area, with one of these alliances being North East Essex). The three CCGs across Suffolk and North East Essex are now sharing a single accountable officer and a shared management teams across the three CCGs.
- The Hertfordshire and West Essex STP appointed an independent Chair in November 2018 (Rt Hon Paul Burstow). 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 Herts and West Essex STP aims to become an integrated care system in 2020. They are in the process of finalising the appointment of a single accountable officer for the 3 CCGs across Hertfordshire and West Essex.
- The Mid and South Essex STP is just starting the process of designing how its ICS might work. The STP appointed a new independent Chair in 2019 (Professor Michael Thorne). The STP is in the process of recruiting a single accountable officer

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 with neighbouring authorities in the STPs. The Essex 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.

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.

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 **Satisfactory Assurance** which means that, 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 is published in July 2020.

External Audit

The External Auditors BDO LLP provided an unqualified opinion on the 2018/2019 financial statements. This was reported to the Audit, Governance and Standards Committee in July 2019. The external auditor for the 2019/20 financial year remains BDO LLP.

External inspections

Care Quality Commission (CQC) and OFSTED Inspection Report on SEND services in Essex

Between 30 September 2019 and 4 October 2019, the CQC and OFSTED conducted a joint inspection to judge the effectiveness of the Essex area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. OFSTED and the CQC issued their Inspection Report on 17 November 2019, the report identified 'significant areas of weakness in the local area's practice'.

Essex County Council and the Clinical Commissioning Groups (CCGs) were required to jointly submit a written statement of action to OFSTED addressing the issues raised in the inspection report. The WSOA was submitted and has been accepted by Ofsted/CQC. A reinspection will take place 18 months from the date that the WSOA was accepted.

Adult Social Care (Newton Europe diagnostic)

In July 2019, in conjunction with health partners, ECC commissioned an external partner (Newton Europe) to conduct a detailed diagnostic to look at the effectiveness of the intermediate care offer and its achievement of outcomes for the people of Essex.

This diagnostic phase suggests that there are opportunities to improve outcomes for 44% of elderly frail people who go through the system. Achieving this would be good for Essex citizens and would also support a more viable and sustainable health and care system. Similar opportunities have been found in other parts of England.

The findings showed that there is the opportunity to:

- support more people to stay in their own home and stay as independent as possible;
- make a measurable improvement in service user outcomes and patient flow, whilst continuing to progress the alignment of Essex system partners towards the joint re-design of intermediate care and the overall objective of integration;
- increase capacity of the reablement team, allowing 1,200 to 1,700 additional referrals per year, and shifting existing referrals to the most effective services;
- release 36% of social worker capacity through productivity and ways of working;
- enable 4100 additional assessments and reviews per year;
- increase the effectiveness of the reablement team by 23%, reducing long-term care needs over time;
- improve long-term care decisions, with consistent, supportive processes embedded in teams, reducing 30% of homecare packages by approximately £100 per week and increasing independence for adults in Essex.

The Adult Social Care Business Plan includes a programme of work on Transforming Community Care which addresses issues raised in this report.

Covid-19 Response

The Coronavirus had a significant impact on ECC operations in the last part of the 2019/20 financial year and that impact has continued into 2020/21. In most cases governance arrangements have been able to cope with the challenges presented and any issues identified will form part of the action plan at the end of this statement.

There has been significant and urgent work undertaken across the Council and with social care providers to ensure an effective response. The pandemic has affected other Council services as facilities have had to close, which includes, but is not limited to Libraries, Adult Community Learning classroom-based provision, Country Parks, Essex Outdoors and Recycling Centres. ECC's Business Continuity plans were implemented across all services, with homeworking becoming the new normal for many employees. In March 2020 ECC completed the rollout of Microsoft Office 365 and Teams at speed as a way of helping employees to stay connected.

The pandemic has necessitated an unusual number of urgent decisions, these are listed in a report to Cabinet in May 2020. Three key decisions relating to adult social care funding were taken before 31st March 2020 which were taken even though they were not on the forward plan. with the agreement of the Chairman of the Corporate Policy and Scrutiny Committee. A further eight non key decisions taken before 31 March related to the temporary closures listed above.

Since the introduction of the Coronavirus Act 2020 the authority has implemented remote formal committee meetings and quickly adapted to the use of new technology and best practice. The Act was not in place by 31 March 2020 however up to this point ECC held several informal Member meetings and briefings online to ensure Committees were in a position to continue as much business as possible when they could next meet formally.

ECC has been lobbying to recommend that the powers given in the Coronavirus Act 2020 around virtual meetings, court proceedings and school appeals to continue beyond the periods defined within the emergency legislation.

ECC has produced a COVID-19 risk register to ensure risks and issues are properly considered and at the time of writing the Council continues to assess the longer-term governance issues associated with the impact of the pandemic such as financial resilience, pausing of certain projects and long term home working. From mid May 2020 ECC began carefully moving forward with a recovery plan, initially with the re-opening of Recycling centers and County Parks.

Information Governance

There were five decision notices received in 2019/20 from the Information Commissioner's Office (ICO) regarding complaints made to them about ECC compliance. Three were FOI related and two were EIR related. One was not upheld (i.e. ECC had been found not to have breached the law), four were confirmed as upheld. Of those complaints that were upheld, one required ECC to disclose information that it had previously withheld, no further action was required for the remaining notices. None resulted in monetary penalties or enforcement action.

ECC also received five ICO complaints relating to Subject Access Requests, two of these complaints were not upheld, two are waiting for an ICO decision and one was upheld. Of the complaint that was upheld the ICO ordered the data to be released.

Monthly performance in responding to statutory requests under FOI/EIR has exceeded the ECC corporate target during 2019/20. However, monthly performance in responding to statutory requests under GDPR (SAR) is 3% below the corporate target. This is a 2% improvement in performance from 2018/19. This is monitored by the Corporate Governance Steering Board on a quarterly basis.

A GDPR governance audit was held during Q3 of 2019/20, the outcome of this audit was 'Satisfactory Assurance'. Overall there were five recommendations, one recommendation was with regard to GDPR training completion rate being below 65% and was marked as a major issue. The Information Governance Team are currently rebranding the Information Governance eLearning modules, with a view to being rolled out in quarter 1 of 2020/21, further to this an action plan is in place to improve compliance going forward. The four remaining recommendations were either low or medium and were regarding communications, retention, third party contractors and policy review. Work in these areas was progressing before the audit, all of these recommendations will be implemented by quarter 2 of 2020/21. Due to COVID-19 the submission of the Data Security and Protection Toolkit has been pushed back to September 2020, however ECC are on track for a successful submission.

Local Government and Social Care Ombudsman (LGSCO)

Between 1 April 2019 to 31 March 2020 Essex County Council received 218 contacts from the Local Government and Social Care Ombudsman (LGSCO) which is a 118% increase on the 100 contacts received in 2018/2019. This increase may be as a result of a recommendation from the Ombudsman to ensure all service areas are aware of the importance of ensuring complainants are always advised of their option to refer their concerns to the Ombudsman in the event of them remaining dissatisfied with the outcome of their complaint considered by the Council. From the 218 contacts received, 70 escalated to formal investigation (down 3% on last year) with 40 cases not upheld and 30 upheld (6% reduction compared to last year) with 15 relating to Adult Social Care, 5 for Children and Families, 8 for Education and Schools, 1 for Public Health, 1 for Roads and Travel. The Compliance and Complaints team actively engages with the Ombudsman's office and all service areas ensuring all deadlines are met and agreed recommendations are carried out within timeframes.

Health and Safety

There has been one improvement notice served, under health and safety legislation, against the Council during the financial year 2019/20. This was related to an incident that took place in July 2018. The incident related to a breach of the Control of Asbestos Regulations 2012. This has resulted in Fee for Intervention (FFI) totalling £10,620.30.

During the year ECC also responded to two other matters that occurred in previous years. One in Jan 2019 when a member of staff was knocked unconscious by a pupil and another that occurred in Aug 2017 when a school used a contractor, who was not gas safe registered, to undertake work refurbishing a gas boiler for their swimming pool. ECC submitted responses to all three of the HSE's Notices of Contravention on 5 May 20.

ECC Owned Companies

ECC has interests in and is involved in companies for many different reasons. For example, to trade services for profit or to 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. There is also an overview of companies performance through an annual Shareholders Board, chaired by the Leader.

By Election

In October 2019 ECC held a by election for the Clacton East division, following the resignation of the existing Councillor. This required review of committee seat allocations in accordance with the statutory rules of political balance which resulted in no overall change to political balance or allocation of committee places.

Previous Governance Matters Arising

All Governance remedial actions identified in the 2018/19 Annual Governance Statement have been adequately addressed, with implementation being reviewed by the Corporate Governance Steering Board. Areas where actions are ongoing have been updated in the table below except for the Corporate

Peer Review which was scheduled for March 2020 and is unlikely to be rescheduled in the next financial year in view of pressures arising from the Local Authority Coronavirus response.

Action Plan

We do not consider that there have been any significant governance issues arising in 2019/20. However, the actions detailed below are in place to maintain good governance arrangements throughout 2020/21.

Subject	Action(s)	Responsible Officer	Target completion date
Coronavirus	Review the impact of the pandemic on governance arrangements and develop an action plan if necessary.	Monitoring Officer	December 2020
Audit, Governance and Standards Committee Effectiveness review	Implement actions agreed as part of the review.	Audit, Governance and Standards Committee	January 2021
Pay and Grading	Complete transfer of employees to Essex Pay.	Chief Executive	January 2021
Standards	Monitor progress on implementation of the recommendations for the Committee in Standards in Public Life.	Monitoring Officer	Ongoing
Assurance	Implement actions identified as part of the 2019/20 Service Assurance Statement process.	All Executive Directors	March 2021
Health and Safety	Report to the Corporate Health and Safety Board regarding Health and Safety matters highlighted in the Service Assurance Statement process. Board to support implementation of actions identified and improve service engagement with Health and Safety training.	Health and Safety Manager & Board	January 2021
Elections	Review the impact of a possible delay to the 2021 County Council elections and complete any actions identified.	Monitoring Officer	September 2020

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 satisfactory 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

Independent Auditor's Report to 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 2020 which comprise the Council and group Comprehensive Income and Expenditure Statement, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets, 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31March 2020 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; 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 the 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, Finance and Technology use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director, Finance and Technology 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.

Emphasis of matter – valuation of land and buildings (including investment properties) and Pension Fund assets

We draw attention to Note 3 to the financial statements, which refers to the outbreak of the Novel Coronavirus (COVID-19) and the impacts on global financial markets. In respect of the Council's property assets, the Note explains that the Council can attach less weight to previous market evidence to inform opinions of value as at 31 March 2020. The Council's valuations are therefore reported on the basis of 'material valuation uncertainty' per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. The Note explains that, consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

The valuation of land, buildings and investment property of £1,491.93 million have therefore been reported on the basis of a 'material valuation uncertainty'.

Note 3 also explains that valuations applied by the Pension Fund to property, equity and other investments ae also reported on the basis of a material valuation uncertainty.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director, Finance and Technology 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.7

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 April 2020, 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 2020.

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 not 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.

Responsibilities of the Executive Director, Finance and Technology and the Council

As explained more fully in the Statement of the Executive Director, Finance and Technology, the Executive Director, Finance and Technology 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, Finance and Technology 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.

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, Key Audit Partner
For and on behalf of BDO LLP, Appointed Auditor
Ipswich, UK
30 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Independent Auditor's Report

Independent Auditor's Report to Members of Essex Pension Fund

Opinion on pension fund financial statements

We have audited the pension fund financial statements of Essex County Council ("the pension fund") for the year ended 31 March 2020 which comprise the fund account, the net assets statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The framework that has been applied in the preparation of the pension fund financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 pension fund 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, Finance and Technology's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Executive Director, Finance and Technology has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter – material valuation uncertainty related to property assets

We draw attention to Note 3.19 to the financial statements which refers to the outbreak of the Novel Coronavirus (COVID-19) and the impacts on global financial markets. The Note explains that the Fund can attach less weight to previous market evidence to inform opinions of value as at 31 March 2020. The Fund's valuations are therefore reported on the basis of ‘material valuation uncertainty’ per VPGA 10 of the RICS Valuation – Global Standards. The Note explains that, consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

The valuations of direct properties of £397.925m and pooled property funds of £165.452m have therefore been reported on the basis of ‘material valuation uncertainty’.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director, Finance and Technology 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 pension fund financial statements and our auditor’s report thereon. Our opinion on the pension fund 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 pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund 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 pension fund 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.

Responsibilities of the Executive Director for Finance and Technology and Essex County Council (“the Council”) as administering authority of the pension fund

As explained more fully in the Statement of Accounts – Statement of Responsibilities, the Executive Director, Finance and Technology is responsible for the preparation of the Statement of Accounts, which comprises the pension fund financial statements, in accordance with proper practices as set out in the

CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the pension fund financial statements, the Executive Director, Finance and Technology is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to wind up the scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the pension fund financial statements our objectives are to obtain reasonable assurance about whether the pension fund 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.

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 in April 2015. 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, Key Audit Partner
For and on behalf of BDO LLP, Appointed Auditor
Ipswich, UK
30 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Audit, Governance and Standards Committee – Work Programme 2020 – 2021 - 2022
The Work Programme has been compiled on the assumption that the usual (pre-covid) statutory timetable for the accounts will apply for 2020/21. If there are any changes to the statutory deadlines, the Work Programme may need to be revised.

Agenda item 6
AGS/91/20

Meeting	Topic	Author	Notes
22 March 2021	**Internal Audit and Counter Fraud progress report**	Paula Clowes, Head of Assurance	
	Arrangements for the closure of the 2020/2021 Accounts	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	
	2020/21 Audit Plans for Essex County Council and the Essex Pension Fund	Nicole Wood, Executive Director, Finance and Technology	
	Regulation of Investigatory Powers Act 2000 - review of activity on use of Directed Surveillance and Covert Human Intelligence Sources (CHIS)	Paul Turner, Director, Legal and Assurance	
	Updating of Risk Management Strategy 2017-2021	Paula Clowes, Head of Assurance	Annual report
	Approval of annual Internal Audit and Counter Fraud Plan	Paula Clowes, Head of	

	for 2021/22	Assurance	
	Annual skills and knowledge self-assessment To determine where skills and knowledge need to be enhanced on an annual basis	Paul Turner, Director, Legal and Assurance	No later than this (March 2021) meeting.

Meeting	Topic	Author	Notes
7 June 2021	**Internal Audit and Counter Fraud Annual Report for the year ended 31 March 2021**	Paula Clowes, Head of Assurance	
	To receive the Draft Statement of Accounts 2020/2021 and the Draft Annual Governance Statement	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	
	Review of Register of Gifts and Hospitality Register	Paul Turner, Director, Legal and Assurance	

Meeting	Topic	Author	Notes
26 July 2021	**To Approve the Statement of Accounts 2020/2021 and the Annual Governance Statement**	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief	

		Accountant.	
	2020/2021 Audit Completion Report for the Essex Pension Fund (from external auditor)	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	Annual report
	2020/2021 Audit Completion Report for Essex County Council (from external auditor)	Nicole Wood, Executive Director, Finance and Technology and Christine Golding, Chief Accountant.	Annual report
	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	

Meeting	Topic	Author	Notes
27 September 2021	**Internal Audit and Counter Fraud progress report**	Paula Clowes, Head of Assurance	
	Annual Audit Letter – 2020/21 To formally present the External Auditor's Annual Audit Letter for the year ending 31 March 2021	From external auditors	Annual report

	Updating of Risk Management Strategy 2017-2021	Paula Clowes, Head of Assurance	Annual report
	Annual report on the work of the AGS committee	Paul Turner, Director, Legal and Assurance	To thereafter be reported to Council in October 2021

Meeting	Topic	Author	Notes
15 November 2021	**Internal Audit and Counter Fraud progress report**	Paula Clowes, Head of Assurance	

Meeting	Topic	Author	Notes
17 January 2022	**Internal Audit and Counter Fraud progress report**	Paula Clowes, Head of Assurance	