



Essex County Council

Audit, Governance and Standards Committee

10:00	Monday, 04 June 2018	Committee Room 1, County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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1	Membership, Apologies, Substitutions and Declarations of Interest	4 - 4
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3	To appoint a Vice-Chairman of the Committee for the 2018/19 municipal year	
4	Draft Statement of Accounts 2017/2018 and Draft Annual Governance Statement To receive a report (AGS/11/18) from Executive Director for Corporate & Customer Services	9 - 237
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| 7 | Internal Audit Charter
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| 8 | Work Programme 2018 – 2019
To receive a report (AGS/15/18) | 287 - 288 |
| 9 | Date of Next Meeting
To note that the next meeting is scheduled to be held on Monday 30 July 2018 at 10:00am in Committee Room 1, County Hall. | |
| 10 | Urgent Business
To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency. | |

Exempt Items

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

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, Members are asked to decide whether, in all the circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

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| 11 | Urgent Exempt Business
To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency. |
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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. If there is exempted business, it will be clearly marked as an Exempt Item on the agenda and members of the public and any representatives of the media will be asked to leave the meeting room for that item.

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Agenda item 1

Committee: Audit, Governance and Standards Committee

Enquiries to: Andy Gribben, Senior Democratic Services Officer

Membership, Apologies, Substitutions and Declarations of Interest

Recommendations:

To note

1. The membership of the committee (as shown below) having been approved at Council on 15 May 2018.
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

Membership

(Quorum: 3)

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

Chairman

Minutes of the meeting of the Audit, Governance and Standards Committee, held in Committee Room 1 County Hall, Chelmsford, CM1 1QH on Monday, 26 March 2018

Present:

Members:

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

Also Present:

Dan Cooke	Ernst and Young (external auditors)
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ECC Officers:

Paul Turner	Director, Legal and Assurance (Monitoring Officer)
Paula Clowes	Head of Assurance
Christine Golding	Chief Accountant
Will Goodchild	Graduate Trainee
Andy Gribben	Senior Democratic Services Officer

1. 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 had changed since the last meeting with the appointment of Councillors Channer, Erskine and Smith.
2. Apologies for absence had been received from Councillors Mitchell and Platt with Councillors Maddocks and Sheldon attending as substitutes.
3. No declarations of interest were made. The Chairman reminded members that any interests must be declared during the meeting if the need to do so arose.

2. Minutes of the meeting held on 11 December 2017

The minutes of the meeting held on the 11 December 2017 were approved as a correct record and signed by the Chairman.

Matters arising from the minutes

The Chairman advised members of the committee that regarding:

- **Minute 2** – an email update to members was sent in January 2018
- **Minute 6** – an email update to members was sent in January 2018.

3. Internal Audit Plan 2018/2019 (AGS/01/18)

The Committee **approved** the Internal Audit Plan 2018/2019 as shown at appendix 1 to the report

4. Internal Audit Progress Report (AGS/02/18)

In response to a question as to why there had been a lower than expected uptake of persons wishing to use Social Care Pre-Payment Cards and how many had been anticipated it was agreed that officers would seek clarification and send an email to all members of the committee.

The Head of Assurance agreed to contact Councillor Smith after the meeting concerning his request that there be an audit of Highways fees as Basildon had been quoted £2,500 for the installation of a metal handrail which he felt was excessive.

The Chairman noted that there were only four items identified in the report with 'limited assurance' and none that were 'critical' but requested that there be ongoing and timely reports to the committee in order to inform members of action taken to eliminate those concerns or progress being made to mitigate those that remained.

The Committee **noted** the report.

5. External Audit Plans 2017/2018 (AGS/03/18)

It was requested by members of the committee that there be arranged training to further explore and understand the concept of 'materiality' as it was acknowledged that it was a complex matter.

The Committee **noted** the report and appendices.

6. Arrangements for the closure of the 2017/18 Accounts (AGS/04/18)

The Committee **noted** the arrangements in place for closure and approval of the Council's Accounts for 2017/18.

7. External Auditor Appointment 2018/2019 (AGS/05/18)

The Committee **noted** that BDO LLP had been appointed by PSAA Limited as ECC's external auditor with effect from financial year 2018/19.

8. Regulation of Investigatory Powers Act 2000 - review of activity on use of Directed Surveillance and Covert Human Intelligence Sources (CHIS) (AGS/06/18)

In response to a question it was explained that the Council had not and did not routinely use the powers it had under the Regulation of Investigatory Powers Act but that cooperation with the Police and with District Councils did take place on operational matters, particularly in the areas of law enforcement spanning Environmental Health, Trading Standards and Licensing. In those circumstances there would be an appropriate sharing of intelligence.

The Committee **noted** the report.

9. Updating of Risk Management Strategy 2017 – 2021 (AGS/07/18)

The Committee **approved** the revised Risk Management Strategy 2017-2021 in the form appended to the report.

10. Response to Consultation on Standards in Local Government (AGS/08/18)

Members requested that there be:

- a Members' Development Session on the use of social media, live streaming and the use of digital technology both generally and in meetings and
- a report to this or another appropriate committee on how the Council ought to respond to intimidation or bullying (on social media or other means) by the public, between councillors, or of officers.

The Committee **agreed** that the Director, Legal and Assurance was authorised to send a response to the Committee on Standards in Public Life after consulting members of the Committee on the revised draft incorporating examples of where people had experienced poor behaviour or intimidation from members of the public, perhaps on social media.

11. Date of the next meeting

The Committee noted that the next meeting was scheduled for Monday 4 June 2018 at 10:00am in Committee Room 1, County Hall.

12 Exclusion of the Public

The Committee **resolved** that the press and public be excluded from the meeting during consideration of the remaining items of business on the grounds that consideration would involve the likely disclosure of exempt information as specified in paragraphs 3 and 7 of Schedule 12A of the Local Government Act 1972.

13 Internal Audit Progress Report – confidential appendix 3

The Committee **noted** confidential appendix 3 to AGS/02/18 (item 4).

14 Internal Audit Progress Report – confidential appendix 4

The Committee **noted** confidential appendix 4 to AGS/02/18 (item 4).

15 Internal Audit Progress Report – confidential appendix 5

The Committee **noted** confidential appendix 5 to AGS/02/18 (item 4).

16 Counter Fraud Activity Report (AGS/09/18)

The Committee **noted** the report.

Chairman

Report title: 2017/18 Statement of Accounts and Draft Annual Governance Statement	
Report to Audit, Governance and Standards Committee	
Report author: Margaret Lee – Executive Director for Corporate and Customer Services	
Date of meeting: 4 June 2018	For: Decision
Enquiries to Margaret Lee, Executive Director for Corporate and Customer Services Tel. 03330 134558	
Divisions affected: All Essex	

1. Purpose of report

- 1.1 The purpose of this report is to present a draft of the Statement of Accounts for 2017/18 to the Committee for information (as appended), and to explain the Committee's role with regard to approval and publication of this document in July 2018.
- 1.2 This report also shares the draft of the Annual Governance Statement 2016/2017 with the Audit Committee. The Committee will be asked to formally approve it in September 2017 with the Statement of Accounts.

2. Recommendations

- 2.1 The Committee notes the arrangements for approval and publication of the Council's Accounts for 2017/18 as appended to this report.
- 2.2 The Committee considers the draft Annual Governance Statement 2016/2017 and makes any comments it wishes to make.
- 2.3 The Committee notes that it will be asked to approve the final statement at the same meeting as it considers the Council's final statement of accounts.

3. Background

- 3.1 The process of closing the Accounts, and of producing the supporting information required to enable the external auditor to give an unqualified opinion on the accounts, is both complex and time constrained.

- 3.2 The Council is statutorily required to compile its annual accounts in compliance with generally accepted accounting practice. It is also required by Regulation to:
- Present its annual accounts for external audit by **31 May** each year;
 - Make the draft Statement of Accounts available for the exercise of public rights for a period of 30 working days, to include the first 10 working days in June (*during this period the public have the right to raise objections, inspect the accounts and question the Local Auditor*); and
 - Publish its audited accounts by **31 July** each year.
- 3.3 These statutory deadlines are earlier than those that applied in previous years – that is, in previous years the deadlines were **30 June** and **30 September** respectively.
- 3.4 The Accounts and Audit Regulations 2015 also include a requirement to publish an Annual Governance Statement, which will be included in our annual statement of accounts. The regulations require authorities to carry out a review of the effectiveness of their system of internal control to provide assurance that the Authority has a sound internal control framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.
- 3.5 ECC has committed to a set of 7 core principles, developed by the Chartered Institute of Public Finance and Accountability (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in their paper *Delivering Good Governance in Local Government: Framework 2016*.
- 3.6 The contents of our Code of Corporate Governance meet the requirements of those 7 key principles and key documents from the Framework can be found on our website. The Code of Corporate Governance at Essex County Council refers to a range of documents, policies and procedures that underpin our aim of achieving good governance. By ‘governance’ we mean the systems, processes, culture and values by which we direct and control our business.
- 3.7 The draft Annual Governance Statement starts at page 204 of Appendix A of the report. The Committee is asked to give any comments they may have on the draft statement.
- 3.8 The draft statement will be updated to reflect any changes requested or required by the Committee and to reflect any significant developments. The Committee will be asked to approve a final version alongside the final statement of accounts.

4. Draft Statement of Accounts for 2017/18

- 4.1 The draft Statement of Accounts for 2017/18 is appended to this report, to provide assurance to the Committee that the first stages in the statutory process have been adhered to.

- 4.2 In accordance with the statutory requirements, the Executive Director for Corporate and Customer Services:
- Certified the draft (unaudited) Statement of Accounts for 2017/18 on **31st May** and presented the accounts to the external auditor on this date; and
 - Commenced the 30 day period for the exercise of public rights on **1st June 2018**.

- 4.3 The external auditor will report the results of the audit work to the Committee on **30th July**, at which stage the Committee will also be asked to approve the Statement of Accounts and the final Annual Governance Statement for publication. The Committee will be required to consider the external auditor's findings before authorising the accounts for issue.

5. Policy context and Outcomes Framework

- 5.1 The Statement of Accounts for 2017/18 summarises the financial performance and financial position for the Council for the year ending 31st March 2018. As such, the Accounts provide a financial representation of activities during 2017/18 against the Organisation Strategy.

6. Financial Implications

- 6.1 There are no specific financial implications associated with this report.

7. Legal Implications

- 7.1 Legal implications: Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of its system of internal control and approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. The statement must be approved before the accounts are approved. The statement must be published on the Council's website.

8. Equality and Diversity implications

- 8.1 There are no equality and diversity implications associated with this report.

9. List of appendices

- 9.1 **Appendix A** – Draft Statement of Accounts for 2017/18 including the draft Annual Governance Statement.

10. List of Background Papers

- 10.1 Papers referred to in the Annual Governance Statement

Essex County Council

Statement of

Accounts

2017/18

Unaudited draft



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Narrative Report 2017/18



Essex County Council

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:

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Narrative Report

Introduction

About Essex County Council

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

Our Services

The following core services are provided by the Council:

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

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

Narrative Report

Our leadership and workforce

The decisions that affect the services we provide and the policies we adopt are made by our Councillors. There are **75** Councillors at Essex County Council, who are elected in local elections based on their political affiliations, to represent **70** areas known as divisions. The last local election was on **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 Cllr David Finch. Cllr David Finch is responsible for the strategic direction, policies and priorities of the Council, including the overall corporate revenue and capital budget strategy. The Leader is also responsible for appointing nine other Councillors to form a **Cabinet**. The Councillors who make up the Cabinet provide collective and individual leadership, undertake lead responsibility for allocated portfolios and contribute towards the strategic direction of the Council. One of the nine Cabinet Members appointed by the Leader fulfils the role of Deputy Leader.

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 Management Board**.

Our workforce is aligned to our Corporate Management Board.

Overall, our workforce comprises **13,681** 'full time equivalent' employees. Of this total, **7,840** are employed within our locally maintained schools. Our non schools' workforce therefore comprises **5,841** 'full time equivalent' employees.

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

Narrative Report

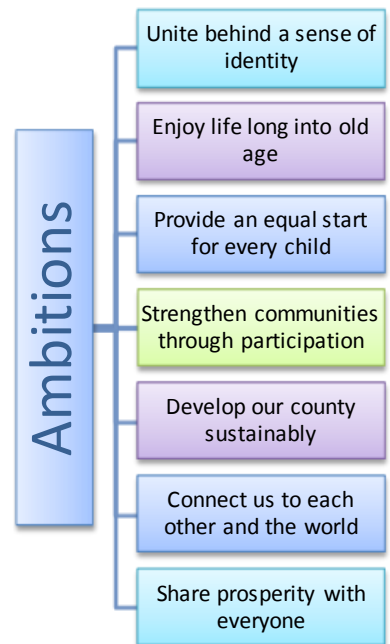
Vision for Essex

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

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

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

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



Organisation Strategy

Strategic aims

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

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



Narrative Report

Strategic priorities

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



Building blocks

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

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

Narrative Report

Our performance

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

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

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

Enable inclusive economic growth

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

	Performance measures	Target	2016/17	2017/18
Help people in Essex prosper	Percentage of pupils at good or outstanding schools (primary, secondary, special and Pupil Referral Units)	100%	93.9%	94.5%
	Percentage of pupils that have achieved 'at least expected standard' in reading, writing and maths at Key Stage 2	Top quartile	56%	63%
	Percentage of 'disadvantaged' pupils that have achieved 'at least expected standard' in reading, writing and maths at Key Stage 2	Top quartile	38%	47%
	Average Progress 8 score at Key Stage 4 – all pupils	Top quartile	0.00	-0.04
	Average Progress 8 score at Key Stage 4 – 'disadvantaged' pupils	Top quartile	-0.41	-0.35
	Proportion of residents aged 16 to 64 with level 3 or above qualifications	54.9%	53.4%	50.5%
	Proportion of residents aged 16 to 64 with no qualification	7.5%	7.8%	6.7%
	Proportion of skills shortage vacancies	Baseline	23.0%	Not yet available
	Number of young people actively considering a career in one or more of the Essex key growth sectors	Baseline	N/A	Not yet available
	Total apprenticeship starts in Essex	11,750	11,750	11,370

Narrative Report

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

Helping people get the best start and age well

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

	Performance measures	Target	2016/17	2017/18
Keep vulnerable children safer	Percentage of 19-21 year old care leavers EET (annual outturn)	53%	49%	Not yet available
	Stability of placements of Children in Care: percentage of placements, 3 or more in year	10%	8.6%	7.4%
	Percentage of eligible disadvantaged 2 year olds in Essex who are in receipt of free early education entitlement for 2 year olds	74%	74%	71.3%
Vulnerable adults living independent of social care	Percentage of people self-caring after reablement	71%	66%	70%
	Number of residential care starts per 100,000 of population	356	304	216
	Number of social care attributed delayed transfers of care (per day per population)	2.6	5.7	3.7
	Increase the proportion of carers who find it easy to find information about support	59%	59%	Not yet available
	The percentage of enquiries resulting in a reduction of risk to the service user	80%	N/A	81%

Narrative Report

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

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

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

	Performance measure	Target	2016/17	2017/18
Stronger and safer communities	Residents agree that our local area is a place where people from different backgrounds get on well together	80%	68%	75%
	Percentage of residents not lonely (perception of isolation)	65%	65%	64%
	Residents that have offered unpaid help to any group, club or organisation	35 - 40%	35%	34%
	Residents that agree they can influence decisions in their local area	22 – 27%	22%	20%
Sustainable development and protect the environment	Percentage of respondents who said they were satisfied with ECC parks and open spaces	78%	Not available	78%
	Total carbon dioxide emissions per head of population (within the scope of local authority influence)	4.79	4.81	TBC
	Total domestic energy consumption per household (KWh)	16,484	17,125	17,036
	Percentage of people using outdoor space for exercise / health reasons	19.7%	19.2%	TBC
	Total household waste collected per household (kg)	1,098	Not available	284
	Percentage of household waste sent for reuse, recycling or composting	53%	Not available	54.5%

Narrative Report

	Performance measure	Target	2016/17	2017/18
Growing communities	Jobs per household	1.09	1.10	1.12
	Developer contributions secured (highways)	N/A	£10.609m	£7.488m
	Developer contributions secured (education)	N/A	£7.356m	£8.586m
	Net housing additions across Essex	6,504	5,124	TBC

Transform the Council to achieve more with less

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

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

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

Revenue spending

Revenue spending plans for 2017/18

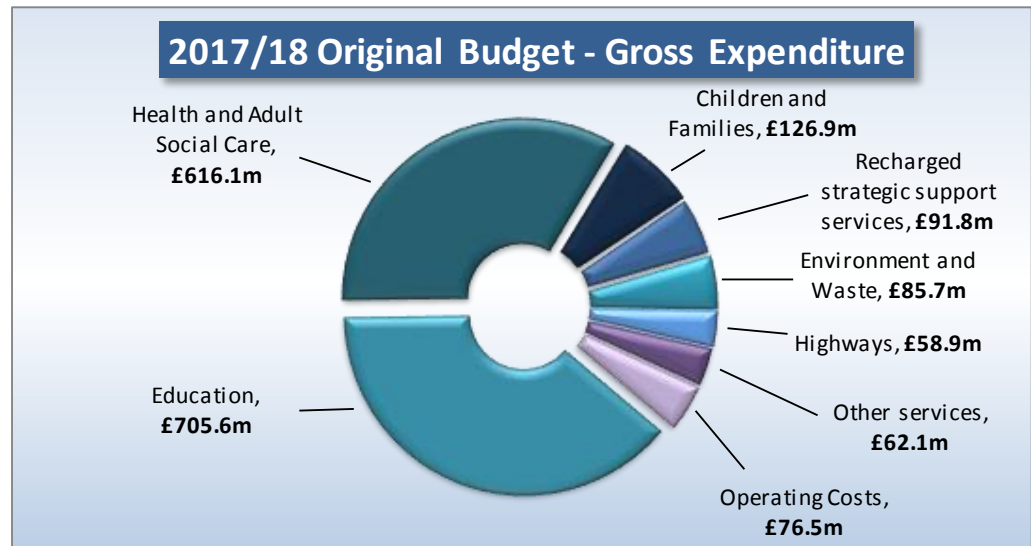
Our budget for the provision of services in 2017/18 was set against a backdrop of considerable financial challenge, due to the Government's on-going austerity programme of national reductions in public sector spending, compounded by inflationary pressures and an increasing demand for our services.

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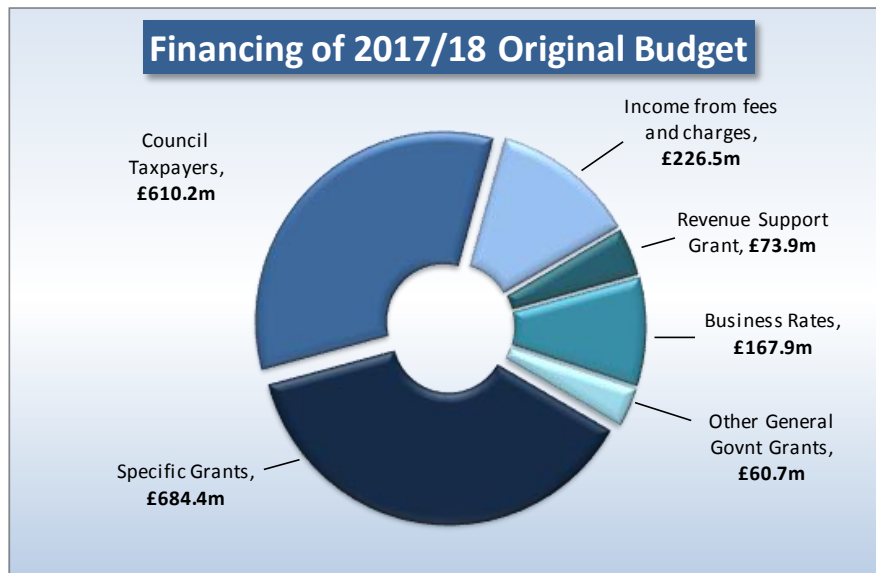
In total, we planned to spend some

£1,823.6m on commissioning services this year.

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



We intended to finance **£971.6m** of our spending from income from fees and charges and from specific and general government grants. Budgeted net expenditure therefore originally amounted to **£852m**.



The net budget was financed from:

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

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

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

Year end position

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

Through careful financial planning and strong management action, the Council delivered a moderate under spend of **£4.893m (0.6%)** against a very challenging backdrop. At the first quarter stage, the

Narrative Report

financial position was a forecast over spend of **£4.881m**, primarily driven by pressures in Adult Social Care, but targeted management action to manage risk and reduce over spends enabled the recovery of that position.

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

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

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

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

Narrative Report

expenditure in 2018/19, some of which was planned and the re-profiling endorsed in advance of the year end).

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

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

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

Revenue spending plans for 2018/19 and beyond

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

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

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

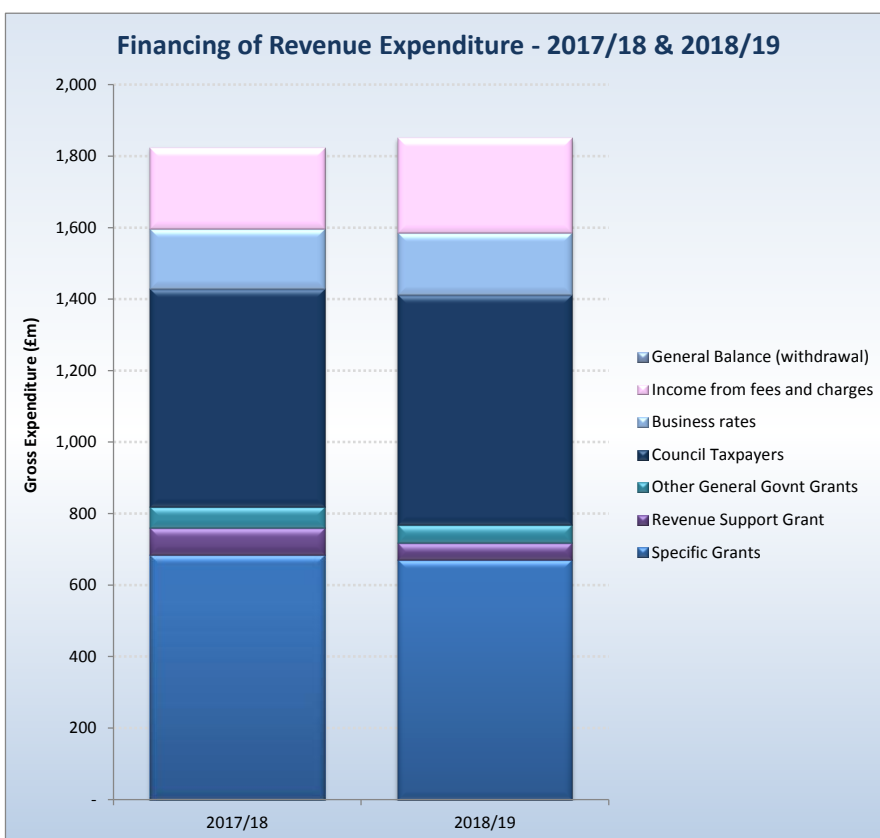
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At **£1,850.6m**, budgeted expenditure in 2018/19 is **£27.0m** higher than that originally planned for 2017/18.

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

Budgeted net expenditure for 2018/19 amounts to **£915.4m**, compared to **£912.7m** in 2017/18.

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



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

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

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

The funding position beyond 2019/20 is not clear. The Council is working with central government on the design of the new Business Rates Retention scheme which is due to be implemented in 2020/21. The new scheme will mean that more business rates are retained locally by local authorities. This will be a significant change to the way we are funded, but will provide greater financial independence, and

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incentives to push for local growth and pioneer new models of public service delivery. Importantly, it will also improve local accountability as locally raised tax becomes the core funding source.

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

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

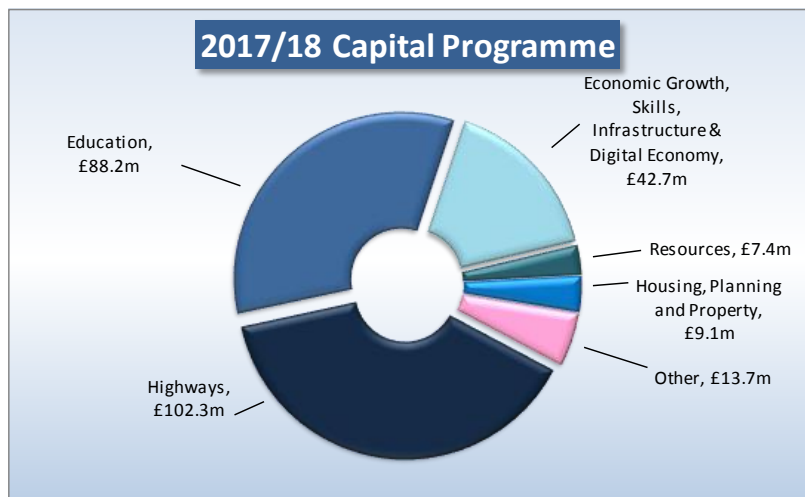
Capital investment

Background to the 2017/18 Capital Programme

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

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

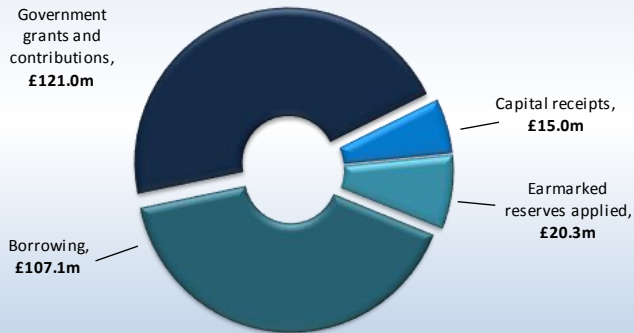
- **Invest to Grow (£124m)** – including economic growth schemes in infrastructure and highways, and the creation of new school places to meet additional demand from demographic changes and new housing developments;
- **Invest to maintain (£115m)** – projects intended to maintain but extend the life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



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

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Financing of Original 2017/18 Capital Programme



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

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

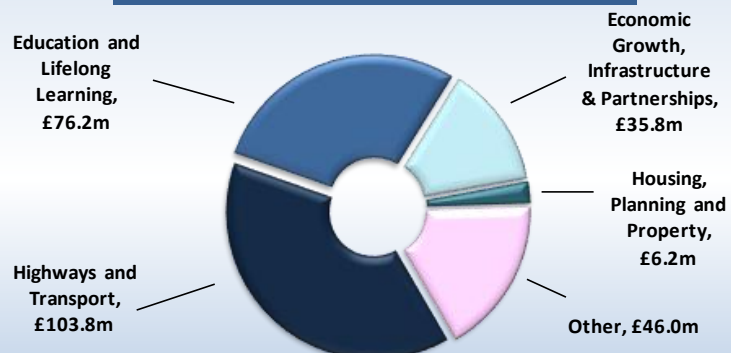
2017/18 Outturn position

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

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

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

Actual Capital Expenditure 2017/18



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

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

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

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

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

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

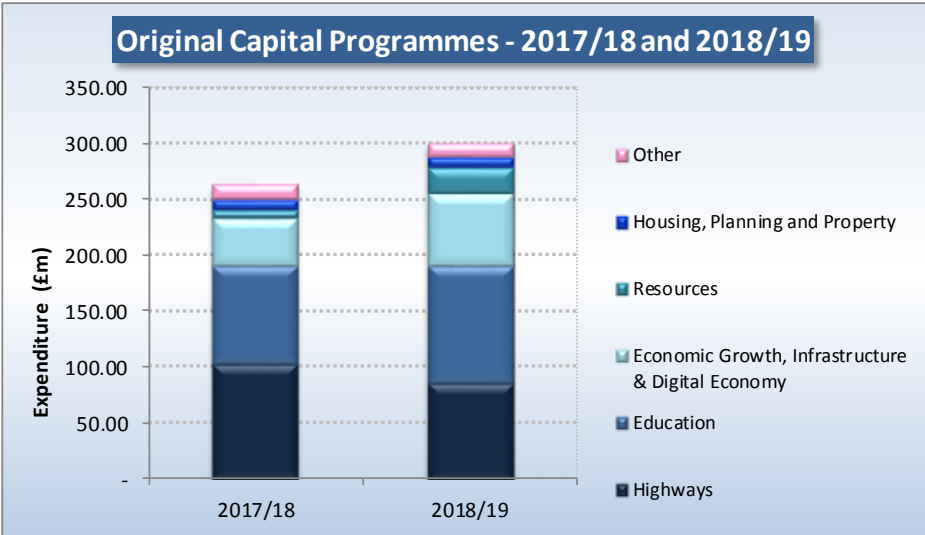
At 31st March 2018, we have **£3.795m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£45.003m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

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Capital investment plans for 2018/19

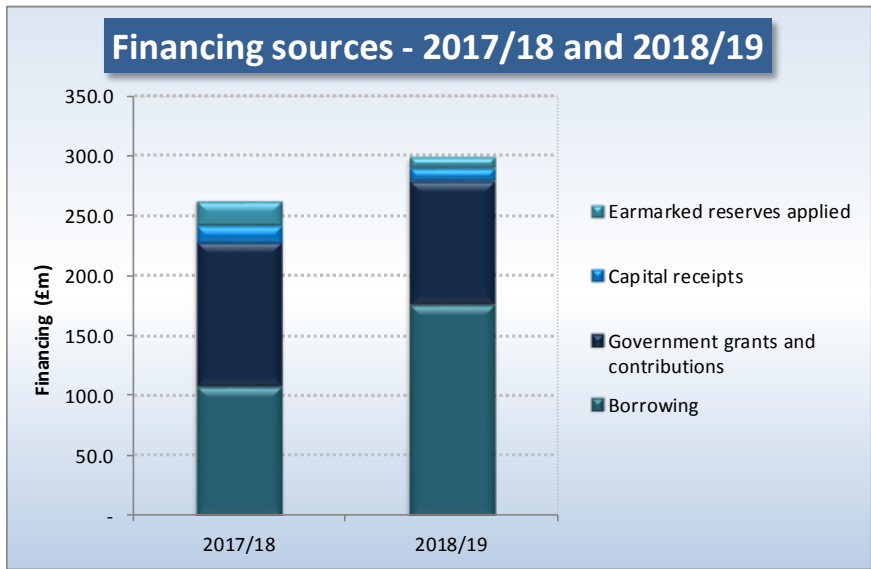
Overall, the Capital Programme for 2018/19 has been set at **£298.6m**.

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



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

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



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

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

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

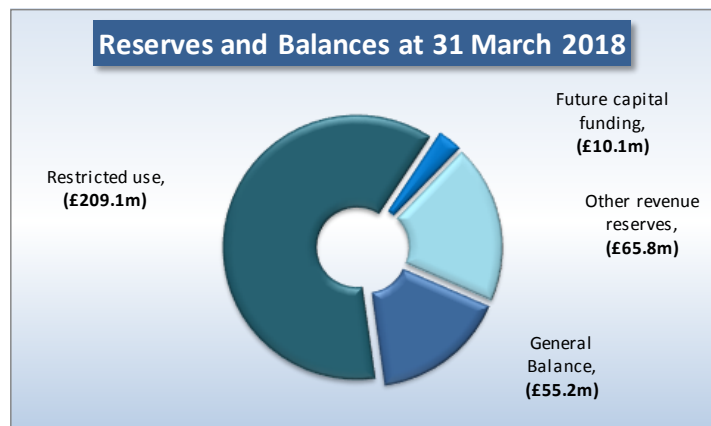
Further details of the Council's capital investment plans are included in the [Essex County Council Organisation Plan 2018/19](#), which is available on the Council's website.

Revenue Reserves and Balances

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

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

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



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

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

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

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

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

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Cash Flow management

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

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

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

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

Statement of Accounts

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

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

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

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The primary financial statements comprise:

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

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

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

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

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

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

Annual Governance Statement

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

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

Conclusion

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

Margaret Lee

Executive Director for Corporate and Customer Services

31st May 2018

Statement of Accounts 2017/18



Essex County Council

Statement of Accounts

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Statement of Accounts - Introduction

Financial Statements

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

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

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

Notes to the Accounts

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

The notes to the accounts include the Council's accounting policies. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. All of the accounting policies adopted, that are material in the context of the Council's 2017/18 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in **Note 1** to the Accounts, which commences on page 38.

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

Group Accounts

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

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

Statement of Accounts - Introduction

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

Pension Fund

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

The Essex Pension Fund accounts comprise:

- **Fund Account**

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

- **Net Assets Statement**

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

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

Glossary of terms

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

Statement of Accounts - Statement of Responsibilities

Council's responsibilities

The Council is required to:

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

Executive Director for Corporate and Customer Services' responsibilities

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

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

The Executive Director for Corporate and Customer Services has also:

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

Executive Director for Corporate and Customer Services' certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents a true and fair view of the financial position of the Council at 31st March 2018 and its expenditure and income for the year then ended.

Margaret Lee

Executive Director for Corporate and Customer Services

31st May 2018

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 July 2018**.

Cllr Terry Cutmore

Chairman of the Audit, Governance and Standards Committee

30th July 2018

Statement of Accounts - Financial Statements

Introduction

The financial statements comprise:

- **Comprehensive Income and Expenditure Statement**

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

- **Movement in Reserves Statement**

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

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

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

- **Balance Sheet**

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

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

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

- **Cash Flow Statement**

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

- **Notes to the financial statements**

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

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

Comprehensive Income and Expenditure Statement

For year ended 31st March 2018

2016/17				Note	2017/18			
Gross expenditure	Government grants	Other income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
127,686	(9,904)	(2,598)	115,184		138,920	(11,678)	(6,717)	120,525
32,019	(90)	(6,815)	25,114		29,133	(326)	(6,497)	22,310
14,694	-	(1,345)	13,349		11,796	(2,519)	(1,429)	7,848
604,700	(556,446)	(44,944)	3,310	Children and Families	581,423	(550,668)	(38,987)	(8,232)
158,903	(42,477)	(23,479)	92,947	Culture, Communities and Customer	203,580	(46,171)	(39,142)	118,267
88,466	(211)	(8,190)	80,065	Economic Growth, Skills, Infrastructure and Digital Economy	95,527	(1,093)	(8,269)	86,165
635,191	(69,727)	(126,983)	438,481	Education	642,453	(87,551)	(138,963)	415,939
84,416	(1,760)	(16,379)	66,277	Dedicated Schools Budget	85,154	(16,342)	(14,887)	53,925
5,903	(196)	(1,165)	4,542	Non Dedicated Schools Budget	6,421	(145)	(1,304)	4,972
(6,591)	(42)	(295)	(6,928)	Environment and Waste	(945)	(170)	(559)	(1,674)
17,793	(297)	(844)	16,652	Health and Adult Social Care	15,557	(275)	(2,433)	12,849
1,928	-	-	1,928	Highways	2,408	-	-	2,408
85,148	-	-	85,148	Housing, Planning and Property	98,649	-	-	98,649
13,444	-	-	13,444	Leader	11,546	-	-	11,546
1,863,700	(681,150)	(233,037)	949,513	Resources	1,921,622	(716,938)	(259,187)	945,497
169,971	-	-	169,971	Recharged Strategic Support Services	115,786	-	-	115,786
124,039	-	(68,097)	55,942	Culture, Communities and Customer	125,923	-	(58,875)	67,048
-	(417,535)	(626,037)	(1,043,572)	Resources	-	(340,152)	(649,638)	(989,790)
2,157,710	(1,098,685)	(927,171)	131,854	Leader	2,163,331	(1,057,090)	(967,700)	138,541
			(138,875)	Cost of services - continuing operations				(100,136)
			341	Other Operating Expenditure				-
			408	Financing and Investment Income and Expenditure				(492)
			314,852	Taxation and Non-Specific Grant Income				(288,243)
			176,726	Deficit on Provision of Services				(388,871)
			308,580	Surplus arising on revaluation of non-current assets				(250,330)
				Impairment losses on non-current assets charged to Revaluation Reserve				
				(Surplus) / deficit arising on revaluation of available for sale financial assets				
				Re-measurements of the net defined benefits pension liability				
				Other Comprehensive Income and Expenditure				
				Total Comprehensive Income and Expenditure				

Movement in Reserves Statement

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

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016		(285,442)	(79,731)	-	(2,791)	(367,964)	(925,517)	(1,293,481)
Movement in Reserves during 2016/17								
Total Comprehensive Income and Expenditure		-	131,854	-	-	131,854	176,726	308,580
Adjustments between accounting basis and funding under regulations	8	-	(101,504)	-	56	(101,448)	101,448	-
Net (increase)/decrease before transfers to earmarked reserves		-	30,350	-	56	30,406	278,174	308,580
Transfers from Earmarked Reserves	9	5,918	(5,918)	-	-	-	-	-
(Increase) / decrease in 2016/17		5,918	24,432	-	56	30,406	278,174	308,580
Balance at 31 March 2017		(279,524)	(55,299)	-	(2,735)	(337,558)	(647,343)	(984,901)
Movement in Reserves during 2017/18								
Total Comprehensive Income and Expenditure		-	138,541	-	-	138,541	(388,871)	(250,330)
Adjustments between accounting basis and funding under regulations	8	-	(143,927)	-	178	(143,749)	143,749	-
Net (increase)/decrease before transfers to earmarked reserves		-	(5,386)	-	178	(5,208)	(245,122)	(250,330)
Transfers to Earmarked Reserves	9	(5,473)	5,473	-	-	-	-	-
(Increase) / decrease in 2017/18		(5,473)	87	-	178	(5,208)	(245,122)	(250,330)
Balance at 31 March 2018		(284,997)	(55,212)	-	(2,557)	(342,766)	(892,465)	(1,235,231)

Statement of Accounts - Financial Statements

Balance Sheet as at 31st March 2018

31 March 2017	Note		31 March 2018	
£000			£000	£000
		Property, Plant and Equipment		
		Operational assets		
1,600,880		Land and buildings	1,571,218	
24,293		Vehicles, plant and equipment	16,197	
991,596		Infrastructure	1,075,953	
2,347		Community assets	3,117	
		Non operational assets		
114,905		Assets under construction	135,115	
34,299		Surplus assets held pending disposal	45,003	
2,768,320	16	Total Property, Plant and Equipment	2,846,603	
14,505	16	Heritage assets	14,501	
12,511	16	Investment property	39,920	
11,746	16	Intangible assets	9,396	
12,128	20	Long term investments	12,746	
17,830	22	Long term debtors	17,971	
2,837,040		Long term assets		2,941,137
231,912	20	Short term investments	211,561	
9,497	16	Assets held for sale	3,795	
373	16	Investment properties held for sale	-	
50	21	Inventories	7,165	
152,650	22	Short term debtors	166,256	
71,254	23	Cash and cash equivalents	40,567	
465,736		Current Assets		429,344
(8,227)	20	Short-term borrowing	(7,382)	
(253,320)	24	Creditors	(298,240)	
(14,008)	26	Provisions (current)	(12,649)	
(9,315)	25	Revenue grant receipts in advance	(13,507)	
(57,268)	25	Capital grant receipts in advance	(54,528)	
(6,285)	18	Finance Lease obligations (short term)	(8,028)	
(348,423)		Current liabilities		(394,334)
(112)	24	Long term creditors	(124)	
(24,278)	26	Provisions (non-current)	(30,240)	
(511,758)	20	Long term borrowing	(514,914)	
		Other long term liabilities		
(147,424)	18	Finance lease obligations	(138,945)	
(13,541)		Deferred credits	(12,982)	
(1,272,339)	32	Net Pensions Liability	(1,043,711)	
(1,969,452)		Long term liabilities		(1,740,916)
984,901		Net Assets		1,235,231

Statement of Accounts - Financial Statements

Balance Sheet as at 31st March 2018

31 March 2017			31 March 2018
£000			£000
(279,524)	9	Usable reserves	(284,997)
(55,299)		Earmarked reserves	(55,212)
-		General Fund Balance	-
(2,735)		Usable capital receipts reserve	(2,557)
		Capital grants unapplied	
(337,558)			(342,766)
(578,469)	28	Unusable reserves	(616,624)
(1,340,533)		Revaluation reserve	(1,316,405)
3,101		Capital Adjustments Account	3,061
(369)		Financial Instruments Adjustment Account	(861)
1,272,339		Available for Sale Financial Instruments Reserve	1,043,711
(2,492)		Pension reserve	(2,535)
(17,426)		Deferred capital receipts	(15,696)
16,506		Collection Fund Adjustment Account	12,884
		Accumulated Absences Account	
(647,343)			(892,465)
(984,901)		Total Reserves	(1,235,231)

I certify that these financial statements give a true and fair view of the Council's financial position and performance in advance of approval:

Margaret Lee - Executive Director for Corporate and Customer Services - 31st May 2018

Statement of Accounts - Financial Statements

Cash Flow Statement

For year ended 31st March 2018

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

Statement of Accounts - Notes to the Financial Statements

Introduction

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

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Statement of Accounts - Notes to the Financial Statements

1. Accounting policies

1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year, and its position as at 31st March 2018. The accounting policies explain the basis for the recognition, measurement and disclosure of transactions and other events within the Statement of Accounts.

The accounting policies adopted, that are material in the context of the Council's 2017/18 Statement of Accounts, are set out within the following paragraphs.

1.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

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

1.3 Accruals of income and expenditure

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

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

1.4 Provisions and contingencies

1.4.1 Provisions

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

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

Statement of Accounts - Notes to the Financial Statements

1.4.2 Contingencies

A contingent liability arises where:

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

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

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

1.5 Earmarked revenue reserves

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

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

1.6 Government grants and contributions

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

1.7 Council Tax and Non-Domestic Rates

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

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

1.8 Employee benefits

1.8.1 *Benefits payable during employment*

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

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

1.8.2 *Termination benefits*

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

Statement of Accounts - Notes to the Financial Statements

1.8.3 Post-employment (retirement) benefits

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

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

1.8.4 Discretionary benefits

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

1.9 Overheads and support services

The costs of overheads are recharged to those who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18 (SeRCOP).

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

1.10 Value added tax

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

1.11 Inventories

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

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

Statement of Accounts - Notes to the Financial Statements

1.12 Property, plant and equipment

1.12.1 Recognition of property, plant and equipment

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

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

1.12.2 Measurement

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

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

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

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

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

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

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

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

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

1.12.3 Depreciation

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

Asset category	Depreciation basis
Land	Land is not depreciated.
Buildings	Buildings are depreciated, on a straight line basis, over the useful economic life (UEL) of each asset (as assessed by the Council's Valuer). Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the

Statement of Accounts - Notes to the Financial Statements

Asset category	Depreciation basis
	<p>following components are depreciated separately:</p> <ul style="list-style-type: none"> 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	<p>Depreciation is provided on a straight-line basis over the following periods:</p> <ul style="list-style-type: none"> Road signage 30 years Roads and highway lighting 40 years Structures (eg: bridges) 120 years Off-highways drainage 100 years Other infrastructure 15 and 20 years Additions prior to 2008/09 30 – 35 years
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

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

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

1.12.4 Disposals and Non-current Assets Held for Sale

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

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

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

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

1.13 Intangible assets

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

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

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

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

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

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1.14 Heritage Assets

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

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

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

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

1.15 Investment property

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

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

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

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1.16 Charges to revenue for non-current assets

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

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

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

1.17 Revenue expenditure funded from capital under statute

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

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

1.18 Private Finance Initiative and similar contracts

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

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

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

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

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

1.19 Leases

1.19.1 Classification of leases

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

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

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

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1.19.2 Council as lessee

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

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

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

1.19.3 Council as lessor

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

Lease rentals receivable are apportioned between:

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

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

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1.20 Cash and cash equivalents

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

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

1.21 Financial instruments

1.21.1 Financial liabilities

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

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

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

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

1.21.2 Financial Assets

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

- **Loans and receivables**

Loans and receivables are initially measured at fair value, and subsequently at their amortised cost.

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

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

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

▪ **Available for sale assets.**

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

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

1.22 Fair value measurement

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

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

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

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

1.23 Joint operations

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

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

1.24 Changes in accounting estimates

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

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

1.25 Events after the Balance Sheet date

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

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

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

2. Critical judgements in applying accounting policies

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

▪ Future funding for local government

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

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

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

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

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

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

- **Property, Plant and Equipment**

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

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

- **Schools**

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

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

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

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

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

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

- **Leases**

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

- **Provisions**

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

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

- **Collaborative arrangements**

- **Group entities**

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

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- **South East Local Enterprise Partnership**

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

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

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

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

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

- **Pooled budgets**

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

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

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

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

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

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

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

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

3. Accounting policies issued but not yet adopted

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

▪ IFRS 9 *Financial Instruments*

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

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

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

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

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

■ IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

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

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	Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Property, plant and equipment	Assets are depreciated over their assessed useful lives, taking into account assumptions about the level of repairs and maintenance that will be undertaken. The current economic climate makes it uncertain that current spending on repairs and maintenance can be sustained, bringing into doubt the useful lives of its assets.	If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease. Had the Council assumed a UEL of one year less in 2017/18 for all assets with a UEL of 20 years or more, depreciation charges would have been £1.479m higher.	The useful economic lives (UELs) of buildings are reassessed at each formal re-valuation. As a result, the potential for the UELs of our buildings to get out of alignment is limited. Details of the carrying values and depreciation are detailed in Note 16 (<i>page 77</i>).
	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques based on observable data.	Significant changes in any of the valuation inputs would result in a significantly lower or higher fair value measurement for the financial assets and liabilities.	The Council employs experts to identify the most appropriate valuation techniques to determine fair value. Information about the techniques used to determine the fair value is disclosed in notes 16.3, 20.2 and 20.4.
Pensions liability	Estimation of the net pension liability to pay pensions depends on a number of complex judgements. A firm of actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The net pension liability in the accounts amounts to £1.044bn at 31st March 2018. The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 32.4 which commences on page 113.	The pensions liability reduced by £228.628m in 2017/18 as a consequence of changes in demographic, financial and other assumptions. Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.
Provisions	The estimate of the provision made for insurance claims depends on a number of complex actuarial judgements. In addition, it is not certain that all valid claims have been received by the Council.	At 31st March 2018, the insurance provision amounted to £23.230m . Further details are provided in Note 26 which commences on page 97.	A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.

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

5. Changes in accounting estimates

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

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

6. Expenditure and Funding Analysis

6.1 Introduction

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

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

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

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

6.3 Notes to Expenditure and Funding Analysis

6.3.1 Adjustments between funding and accounting basis

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

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

2017/18	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	Note 6.3.2	Note 6.3.3	Note 6.3.4	Note 6.3.5	
	£000	£000	£000	£000	£000
Children and Families	644	5,554	(10)	-	6,188
Culture, Communities and Customer	1,431	1,331	(28)	-	2,734
Economic Growth, Skills, Infrastructure and Digital Economy	(275)	493	(10)	-	208
Education					
Dedicated Schools Budget	-	-	(3,574)	(11,456)	(15,030)
Non Dedicated Schools Budget	38,580	15,514	40	(9,324)	44,810
Environment and Waste	7,143	531	8	(10)	7,672
Health and Adult Social Care	2,425	4,372	35	-	6,832
Highways	21,379	890	(7)	(9,704)	12,558
Housing, Planning and Property	968	406	3	-	1,377
Leader	1,293	(11,202)	(2)	(1,674)	(11,585)
Resources	2	20	12	(1,934)	(1,900)
Recharged Strategic Support Services					
Culture, Communities and Customer	-	469	7	-	476
Resources	15,819	5,324	14	(130)	21,027
Leader	-	1,236	(20)	-	1,216
Cost of services - continuing operations	89,409	24,938	(3,532)	(34,232)	76,583
Other income and expenditure not charged to services	(3,165)	34,677	1,600	34,232	67,344
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	86,244	59,615	(1,932)	-	143,927

Statement of Accounts - Notes to the Financial Statements

6.3.2 Adjustments for capital purposes

This column adds the following amounts into service lines:

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

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

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

6.3.3 Net change for Pensions Adjustments

The net change for Pension adjustments comprises:

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

6.3.4 Other adjustments between funding and accounting

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

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

6.3.5 Other differences

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

Statement of Accounts - Notes to the Financial Statements

7. Expenditure and income analysed by nature

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

2016/17		2017/18	
£000		£000	£000
Expenditure			
555,809	Employee expenses	559,908	
1,236,288	Other service expenditure	1,263,909	
71,603	Depreciation, amortisation and impairment	97,805	
36,492	Interest payable and similar charges	37,415	
3,330	Precepts and levies	3,301	
166,641	Gain or loss on disposal of fixed assets	112,485	
87,547	Corporate amounts	88,508	
<u>2,157,710</u>			<u>2,163,331</u>
Income			
(233,175)	Fees, charges and other service income	(259,303)	
(2,862)	Interest and investment income	(2,411)	
(65,097)	Corporate amounts	(56,348)	
(626,037)	Income from council tax and non domestic rates	(649,638)	
(1,098,685)	Government grants and contributions	(1,057,090)	
<u>(2,025,856)</u>			<u>(2,024,790)</u>
<u>131,854</u>	Deficit on the Provision of Services		<u>138,541</u>

8. Adjustments between Accounting Basis and Funding under Regulations

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

Statement of Accounts - Notes to the Financial Statements

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

Statement of Accounts - Notes to the Financial Statements

2017/18	Notes	Usable Reserves				
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
		£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	28.3					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(95,456)	-	-	(95,456)
Amortisation of intangible assets		-	(2,350)	-	-	(2,350)
Movement in market value of investment properties		-	(440)	-	-	(440)
Capital grants and contributions applied		-	126,475	-	-	126,475
Donated assets		-	302	-	-	302
Revenue expenditure funded from capital under statute		-	(47,234)	-	-	(47,234)
Value of assets disposed of during the year		-	(120,276)	-	-	(120,276)
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>						
Statutory provision for the financing of capital investment		-	28,415	-	-	28,415
Capital expenditure charged against the General Fund		-	14,826	-	-	14,826
Adjustments involving the Capital Adjustment Account		-	(95,738)	-	-	(95,738)
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	1,751	1,751
Grants and contributions unapplied		-	1,573	-	(1,573)	-
Adjustments involving the Capital Grants Unapplied A/C		-	1,573	-	178	1,751
Adjustments involving the Capital Receipts Reserve						
Sale proceeds (part of gain/loss on disposal)		-	7,921	(7,862)	-	59
Loan repayments - loans awarded for capital purposes		-	-	(546)	-	(546)
Transfer from Deferred Capital Receipts Reserve		-	-	(16)	-	(16)
Use of reserve to finance new capital expenditure		-	-	7,878	-	7,878
Use of capital receipts to repay debt		-	-	546	-	546
Adjustments involving the Capital Receipts Reserve		-	7,921	-	-	7,921
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	28.4					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40
Adjustments involving the FIAA		-	40	-	-	40
Adjustments involving the Pensions Reserve	28.6					
Reversal of items debited/credited to the CIES		-	(114,895)	-	-	(114,895)
Employers' pension contributions payable in the year		-	55,280	-	-	55,280
Adjustments involving the Pensions Reserve		-	(59,615)	-	-	(59,615)
Adjustments involving the Collection Fund Adjustment Account	28.8					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(1,730)	-	-	(1,730)
Adjustments involving the Collection Fund Adj Account		-	(1,730)	-	-	(1,730)
Adjustments involving the Accumulated Absences Account	28.9					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	3,622	-	-	3,622
Adjustments involving the Accumulated Absences Account		-	3,622	-	-	3,622
Total adjustments		-	(143,927)	-	178	(143,749)

Statement of Accounts - Notes to the Financial Statements

9. Earmarked revenue reserves

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

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

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10. Other operating expenditure

Other operating expenditure comprises of the following:

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

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

11. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

2016/17		2017/18
£000		£000
	Net interest on the net defined benefit liability	
93,860	Interest cost	88,068
(61,275)	Interest on assets	(54,282)
32,585		33,786
36,492	Interest payable and similar charges	37,415
(2,862)	Interest receivable and similar income	(2,411)
	Income and expenditure in relation to investment properties and changes in their value	
(6,451)		197
(3,822)	Net surplus on trading activities	(1,939)
55,942	Financing and Investment income and expenditure	67,048

Statement of Accounts - Notes to the Financial Statements

12. Trading operations

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

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

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

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

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

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13. Taxation and non-specific grant income

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

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

14. Grant income

14.1 Amounts credited to Taxation and Non-Specific Grant income

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

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

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14.2 Amounts credited to Services

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

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

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15. Dedicated Schools Grant

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

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

The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are provided in the following table.

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

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

16.1 Movement in balances – 2016/17

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

16.2 Movement in balances – 2017/18

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

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16.3 Fair value measurement

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

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

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

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

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

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

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

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

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16.4 Capital commitments

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

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

16.5 Revaluations

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

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

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17. Capital expenditure and capital financing

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

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

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

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18. Leases

18.1 Council as Lessee – Finance leases

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

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

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

18.2 Council as Lessee – Operating leases

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

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

18.3 Council as Lessor – Finance leases

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

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The gross investment is made up of the following amounts:

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

18.4 Council as lessor – Operating leases

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

31 March 2017 £000		31 March 2018 £000
1,493	Not later than one year	3,320
4,611	Later than one year and not later than five years	10,688
6,290	Later than five years	53,143
<u>12,394</u>	Total	<u>67,151</u>

19. Private Finance Initiative and similar contracts

19.1 Nature and significant terms of PFI arrangements

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

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

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Scheme	Nature and significant terms
	<p>or if traffic flow is affected by road works.</p> <p>The road will be passed to the Council in a repaired/neutral state at the end of the arrangements in 2030.</p>
Debden Park School	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of £15m.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p>
Clacton Secondary Schools	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of £34m.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, which varies according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>
Tendring Primary Schools	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of £15m.</p> <p>The Operator is operating and maintaining the schools' facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary according to inflation, the proportion of the required time that the facilities are available to the Council and the extent to which performance goals are met.</p>
Castlevue, Cornelius Vermuyden and Columbus Schools	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>At financial close of this contract, two of the schools were foundation schools and one was a community school. All three of the schools have subsequently converted to academy status.</p> <p>These schools' governing bodies consent to the Council acting on their behalf and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement.</p> <p>The Council carries the PFI liabilities on its own Balance Sheet for one of these schools (the Columbus School), as this school was a community school at financial close of the contract. The construction costs of this school amounted to £22.3m.</p>
Woodlands School	<p>The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction</p>

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

19.2 Details of payments to be made under PFI contracts

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

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

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

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.

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19.3 Property, plant and equipment used to provide services

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

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

19.4 Value of PFI liabilities for capital expenditure

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

2016/17 £000	2017/18 £000
(148,662)	(144,072)
4,590	3,952
<u>(144,072)</u>	<u>(140,120)</u>

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20. Financial instruments

20.1 Categories of Financial Instruments

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

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

Notes:

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

20.2 Fair values of financial assets carried at fair value

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

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

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

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

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

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

Financial liabilities

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

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

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

Investments and cash

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

Other

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

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

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

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

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

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20.5 Income, expense, gains and losses

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

2016/17				2017/18			
Financial Assets		Financial liabilities	Total	Financial Assets		Financial liabilities	Total
Loans and receivables	Available for sale			Loans and receivables	Available for sale		
£000	£000	£000	£000	£000	£000	£000	£000
-	-	36,418	36,418	-	-	37,396	37,396
-	-	74	74	-	-	19	19
-	-	36,492	36,492	-	-	37,415	37,415
(2,506)	(356)	-	(2,862)	(1,788)	(623)	-	(2,411)
(2,506)	(356)	-	(2,862)	(1,788)	(623)	-	(2,411)
-	-	-	-	-	(492)	-	(492)
-	408	-	408	-	-	-	-
-	408	-	408	-	(492)	-	(492)
(2,506)	52	36,492	34,038	(1,788)	(1,115)	37,415	34,512

20.6 Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity risk

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

The maturity analysis of existing financial liabilities is as follows:

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

Market risk

Interest rate risk

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

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

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

The Council only carries a small proportion of its investments at fair value, and none of its borrowing is carried at fair value either. Consequently, nominal gains and losses on fixed rate borrowing and investments would not impact on the surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and investments will impact on the amount charged / credited to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of borrowings in variable rate loans (2016/17: 30%).

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

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

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

Price risk

The Council is not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund. It has however made modest investments in a pooled property fund which is classified as 'available for sale', and an unquoted equity instrument, meaning that movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. In 2017/18, a gain was recognised in 'Other Comprehensive Income and Expenditure' (see note 20.5, on page 90).

Foreign exchange risk

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

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21. Inventories

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

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

22. Debtors

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

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

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23. Cash and cash equivalents

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

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

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

24. Creditors

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

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

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25. Grant receipts in advance

Where grants or contributions have been received, but the conditions attached to the funding are not satisfied, the amount is carried in the Balance Sheet as a receipt in advance. An analysis of the amounts carried in the Balance Sheet as a receipt in advance is as follows:

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

26. Provisions and contingencies

26.1 Provisions

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

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

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	Insurance Provision	Landfill aftercare	Non-domestic rating appeals	Restructuring	Other provisions	Total
	£000	£000	£000	£000	£000	£000
Current provisions						
Balance at 31st March 2017	(6,880)	(327)	(4,061)	(256)	(2,484)	(14,008)
Amounts arising	-	-	-	(933)	(1,483)	(2,416)
Provisions reversed	-	-	-	25	569	594
Provisions utilised	1,967	284	(72)	231	2,411	4,821
Unwinding of discount	-	(10)	-	-	-	(10)
Amounts reclassified as current	(1,287)	(343)	-	-	-	(1,630)
Balance at 31st March 2018	(6,200)	(396)	(4,133)	(933)	(987)	(12,649)
Non-current provisions						
Balance at 31st March 2017	(13,420)	(10,858)	-	-	-	(24,278)
Amounts arising	(4,897)	(2,695)	-	-	-	(7,592)
Provisions reversed	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-
Amounts reclassified as current	1,287	343	-	-	-	1,630
Balance at 31st March 2018	(17,030)	(13,210)	-	-	-	(30,240)
Total current and non-current provisions						
31st March 2017	(20,300)	(11,185)	(4,061)	(256)	(2,484)	(38,286)
31st March 2018	(23,230)	(13,606)	(4,133)	(933)	(987)	(42,889)

An explanation of each provision is as follows:

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

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Provision	Purpose
	anticipated that a request for payment of a further levy on historic claims will be made in the next 18 to 36 months. The Provision therefore allows for a further 10% increase in the levy above that already required, with added allowance being made for additional increases in the Insurance Reserve (see Note 9, which commences on page 68).
Landfill aftercare	<p>The Council has responsibility for the aftercare of twelve former landfill sites. Restoration work was undertaken at all sites during the 1990's, when the sites were closed. However, the Council continues to monitor each site, and to operate and maintain pollution control infrastructure, to ensure that these sites do not bring harm to human health, property and the environment; the Council will have this obligation until the sites become inert.</p> <p>As the Council expects to discharge its environmental monitoring liabilities over a prolonged period, the provision has been discounted to the present value of the expenditures expected to be required to settle the obligation.</p>
Non-domestic rating appeals	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.
Restructuring	This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of services, where these plans are likely to result in the termination of employment for some of the affected staff before their normal retirement date.
Other	Provisions have been established for various matters.

26.2 Contingent Liabilities

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

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

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

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27. Usable reserves

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

28. Unusable reserves

28.1 Introduction

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

28.2 Revaluation Reserve

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

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

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was established. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. The following table provides an analysis of the movements on the Revaluation Reserve:

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

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28.3 Capital Adjustment Account

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

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

28.4 Financial Instruments Adjustment Account

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

- Premiums paid on the early redemption of loans, such that the expense is recognised in the General Fund over the unexpired term that was outstanding on the loans when they were redeemed; and
- Discounts received on the early redemption of loans, such that the benefit is recognised in the General Fund over a maximum period of 25 years.

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2016/17				2017/18		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
7,012	(3,871)	3,141	Balance as at 1 April	6,789	(3,688)	3,101
(128)	19	(109)	Amortisation of premiums / discounts to the General Fund	(127)	18	(109)
(95)	164	69	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(95)	164	69
6,789	(3,688)	3,101	Balance as at 31 March	6,567	(3,506)	3,061

28.5 Available for Sale Financial Instruments Reserve

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

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

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

28.6 Pension Reserve

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

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

Statement of Accounts - Notes to the Financial Statements

2016/17				2017/18		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
893,088	41,110	934,198	Balance as at 1 April	1,237,011	35,328	1,272,339
			Pension Reserve appropriation to / (from) the General Fund for:			
78,859	992	79,851	Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	114,319	576	114,895
(53,654)	(2,908)	(56,562)	Council contributions to the schemes	(52,427)	(2,853)	(55,280)
25,205	(1,916)	23,289	Total appropriation from Pension Reserve	61,892	(2,277)	59,615
318,718	(3,866)	314,852	Remeasurements of the net pension liability	(287,306)	(937)	(288,243)
1,237,011	35,328	1,272,339	Balance as at 31 March	1,011,597	32,114	1,043,711

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

28.7 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

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

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28.8 Collection Fund Adjustment Account

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

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

Balance at 1 April

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

Balance as at 31 March

28.9 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31st March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/17 £000		2017/18 £000	
10,667	Balance as at 1 April	16,506	
(10,667)	Settlement or cancellation of accrual made at the end of the preceding year	(16,506)	
16,506	Amounts accrued for at the end of the current year	12,884	
5,839	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3,622)	
16,506	Balance as at 31 March	12,884	

29. Cash Flows from operating, investing and financing activities

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

Statement of Accounts - Notes to the Financial Statements

30. Termination benefits

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

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

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

31. Pension Schemes accounted for as Defined Contribution Schemes

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

▪ Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Teachers' pension scheme has in excess of **8,700** participating employers.

▪ NHS Pension Scheme

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

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

The amounts in the above table reflect:

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

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

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

32. Defined Benefit Pension Schemes

32.1 Participation in Pension Schemes

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

Statement of Accounts - Notes to the Financial Statements

The Council participates in two schemes:

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

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

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

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

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

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

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

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

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

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

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

32.2 Transactions relating to post-employment benefits

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

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

2016/17			2017/18		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Comprehensive Income and Expenditure Statement					
Cost of Services					
63,072	-	63,072	92,567	-	92,567
498	-	498	2,674	-	2,674
(16,304)	-	(16,304)	(14,132)	-	(14,132)
47,266	-	47,266	81,109	-	81,109
Financing and Investment Income and Expenditure					
31,593	992	32,585	33,210	576	33,786
78,859	992	79,851	114,319	576	114,895
Re-measurements of the net pensions liability					
(270,838)	-	(270,838)	(134,972)	-	(134,972)
648,705	3,574	652,279	(152,334)	(937)	(153,271)
(51,230)	(1,951)	(53,181)	-	-	-
956	(5,489)	(4,533)	-	-	-
(8,875)	-	(8,875)	-	-	-
318,718	(3,866)	314,852	(287,306)	(937)	(288,243)
397,577	(2,874)	394,703	(172,987)	(361)	(173,348)
Movement in Reserves Statement					
(78,859)	(992)	(79,851)	(114,319)	(576)	(114,895)
53,654	2,908	56,562	52,427	2,853	55,280
(25,205)	1,916	(23,289)	(61,892)	2,277	(59,615)

Statement of Accounts - Notes to the Financial Statements

32.3 Pensions assets and liabilities recognised in the Balance Sheet

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

2016/17				2017/18		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
3,288,495	35,328	3,323,823	Present value of the defined benefit obligation	3,224,588	32,114	3,256,702
(2,051,484)	-	(2,051,484)	Fair value of plan assets	(2,212,991)	-	(2,212,991)
1,237,011	35,328	1,272,339	Net liability arising from defined benefit obligations	1,011,597	32,114	1,043,711

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net deficit of the two Schemes of **£1.044bn** (2016/17: £1.272bn) has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the next twenty years; and
- Finance is only required to be raised to cover teachers' unfunded added years when the pensions are actually paid.

Scheme Liabilities

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

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

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Scheme Assets

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

2016/17				2017/18		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,734,248	-	1,734,248	Balance as at 1 April	2,051,484	-	2,051,484
61,275	-	61,275	Interest income	54,282	-	54,282
			Remeasurement gain/(loss)			
270,838	-	270,838	Return on plan assets (excl. amount incl in net interest expense)	134,972	-	134,972
8,875	-	8,875	Other	-	-	-
53,654	2,908	56,562	Contributions by the Council	52,427	2,853	55,280
16,622	-	16,622	Contributions from employees into the scheme	16,132	-	16,132
(85,494)	(2,908)	(88,402)	Benefits paid	(86,958)	(2,853)	(89,811)
(8,534)	-	(8,534)	Amounts made for settlements	(9,348)	-	(9,348)
2,051,484	-	2,051,484	Balance as at 31 March	2,212,991	-	2,212,991

Local Government Pension Scheme assets comprised:

31 March 2017			31 March 2018		
£000	%		£000	%	
1,401,208	68.3%	Equities	1,456,065	65.8%	
77,616	3.8%	Gilts	150,266	6.8%	
83,377	4.1%	Other bonds	81,082	3.7%	
199,582	9.7%	Property	204,598	9.2%	
61,750	3.0%	Cash and cash equivalents	81,060	3.7%	
136,818	6.7%	Alternative assets	151,216	6.8%	
91,133	4.4%	Other managed funds	88,704	4.0%	
2,051,484	100.0%	Total assets	2,212,991	100.0%	

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

31 March 2017						31 March 2018				
UK		Overseas		Total		UK		Overseas		Total
Quoted	Unquoted	Quoted	Unquoted			Quoted	Unquoted	Quoted	Unquoted	
7.7%	-	55.7%	4.9%	68.3%	Equities	6.8%	-	54.5%	4.5%	65.8%
3.8%	-	-	-	3.8%	Gilts	6.8%	-	-	-	6.8%
4.1%	-	-	-	4.1%	Other bonds	3.7%	-	-	-	3.7%
6.1%	3.6%	-	-	9.7%	Property	3.4%	5.8%	-	-	9.2%
-	3.0%	-	-	3.0%	Cash and cash equivalents	-	3.7%	-	-	3.7%
(0.2%)	1.7%	-	5.2%	6.7%	Alternative assets	-	6.8%	-	-	6.8%
-	4.4%	-	-	4.4%	Other managed funds	-	4.0%	-	-	4.0%
21.5%	12.7%	55.7%	10.1%	100.0%	Total assets	20.7%	20.3%	54.5%	4.5%	100.0%

Statement of Accounts - Notes to the Financial Statements

32.4 Basis for estimating Assets and Liabilities

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

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

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

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

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32.5 Impact on the Council's Cash Flows

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

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

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

33. Audit costs

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

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

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

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34. Members' allowances and expenses

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

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

35. Pooled budgets

35.1 Better Care Fund

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

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

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

The Essex Better Care Fund comprises six pooled funds:

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

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

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

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

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35.2 Equipment Pool

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

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

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

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

35.3 Transforming Care Partnership Pool

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

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

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

2016/17			2017/18		
Contributions	Expenditure	Net (surplus) / deficit	Contributions	Expenditure	Net (surplus) / deficit
£000	£000	£000	£000	£000	£000
			Local authorities		
-	-	-	Essex County Council	(192)	535
-	-	-	Southend Council	(1)	-
			Clinical Commissioning Groups		
-	-	-	Basildon and Brentwood	(1)	-
-	-	-	Castle Point and Rochford	(1)	-
-	-	-	Mid Essex	(273)	167
-	-	-	North East Essex	(327)	177
-	-	-	Southend	(332)	332
-	-	-	West Essex	(217)	133
-	-	-	Total	(1,344)	1,344

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

36. Officers' remuneration

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

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

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

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

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

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37. Senior officers' remuneration

37.1 Senior officers

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

37.2 Disclosure of senior officers' remuneration

Senior Officers' remuneration is disclosed overleaf.

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

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

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

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

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

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

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

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

Notes:

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

2017/18	Notes	Remuneration					
		Salaries, fees and allowances	Bonus payments	Expense allowances / benefits	Compensation for loss of employment	Total remuneration Excl pension contributions	Total remuneration Incl. pension contributions
		£	£	£	£	£	£
Chief Executive - Mr Gavin Jones		195,000	-	10,454	-	205,454	236,849
Executive Director, Social Care and Education Mr David Hill		187,285	-	2,250	-	189,535	218,561
Executive Director, Children and Families Ms Helen Lincoln	(i)	161,833	-	1,800	-	163,633	188,561
Executive Director, Corporate and Customer Services - Mrs Margaret Lee	(ii)	162,177	-	1,800	-	163,977	188,960
Executive Director, Corporate Development Mr Jason Kitcat	(iii)	134,375	-	1,690	-	136,065	156,767
Executive Director, Economy, Localities and Public Health - Mr Mark Carroll		163,038	-	1,690	-	164,728	189,763
Executive Director, Infrastructure and Environment Ms Nicola Beach	(iv)	121,875	-	-	-	121,875	140,652
Director, Wellbeing, Public Health and Communities Dr Michael Gogarty	(v)	165,087	-	2,354	-	167,441	194,020
Director, Digital	(vi)	78,075	-	-	109,210	187,285	187,285
Director, Adult Social Care	(vii)	130,135	-	-	-	130,135	150,684
Director, Legal and Assurance	(viii)	102,500	-	-	-	102,500	118,600
Director, Organisation Development and People		140,000	-	1,045	-	141,045	163,182

Notes:

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

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38. Related parties

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

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

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Related party	Declaration
	<ul style="list-style-type: none"> • Cllr Lumley is also a trustee of Supporting Carers and Families Together, a registered charity whose objective it is to relieve the social, emotional, mental, physical and educational needs of carers and families in Essex. The Council provided £19,000 to this charity in 2017/18. • Cllr Mark Platt is a trustee of Tendring Eldercare, a charity which seeks to relieve elderly people in Tendring who are in need. The Council provided £38,000 to this charity in 2017/18. • Cllr Roger Walters, who was a County Councillor until May 2017, was a non-executive director of Essex Cares Ltd until 31st March 2017; he received an allowance of £18,000 from Essex Cares in respect of this role in 2016/17. • Cllr Stephen Canning was appointed as a non-executive director of Essex Cares Ltd on 14th August 2017; he received an allowance of £9,566 from Essex Cares in respect of this role in 2017/18. Cllr Canning was a member of the Place Services and Economic Growth Policy and Scrutiny Committee, and of the Corporate Policy and Scrutiny Committee, with effect from May 2017. • Further details of the Council's relationship and transactions with Essex Cares Ltd are provided on page 126.
	<ul style="list-style-type: none"> • Cllr Roger Hirst was elected as the Police and Crime Commissioner for Essex in May 2016. He stood down as a County Councillor in May 2017. The Council made payments totalling £1.182m to Essex Police, and received income of £1.245m, in 2016/17. The income from Essex Police included £287,000 for Coroner services, £51,000 for Legal services and £176,000 for Pensions; of these amounts £368,000 remained outstanding at 31st March 2017. • Cllr Michael Page, who was a County Councillor until May 2017, was a trustee of the Rural Community Council of Essex (RCCE), a registered charity that works with local community groups in villages and market towns across the County. The Council provided £726,000 to the charity during 2016/17. • Cllr Michael Page was also a member of the Executive Committee of the Essex Association of Local Councils. The Council provided £41,000 to this organisation in 2016/17.
	The total of members' allowances paid is shown in note 34 (page 116).
Officers	Members of the Council's Corporate Management Board, and other officers with independent statutory powers, can influence significantly the policies of the authority. However, officers are bound by a Code of Conduct which seeks to prevent related parties exerting undue influence over the Council. In addition, they are required to declare any transactions with the Council.
Essex Pension Fund	The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district council and other admitted bodies.

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Related party	Declaration
	The Council charged £2.713m for administering the Fund during 2017/18, of which £258,000 was outstanding at 31st March 2018 (2016/17: £2.516m, of which £2.228m was outstanding at 31st March 2017).
Essex Fire Authority	<p>The Council's Assistant County Solicitor was employed as the Monitoring Officer for the Essex Fire Authority during 2017/18.</p> <p>The total value of these services in 2017/18 was £326,000, none of which was outstanding at 31st March 2018 (2016/17: £477,000, of which £49,000 was outstanding at 31st March 2017).</p>
Essex Cares Ltd	<p>Essex Cares Ltd is a wholly owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 129 to 143.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of £30.7m in 2017/18 (2016/17: £29.8m).</p> <p>The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2017/18; the value of these services in 2017/18 was £179,000 (2016/17: £279,000).</p> <p>The Council also provided cash management support to Essex Cares Ltd. The Council charged interest of £46,600 (net) on the amounts it lent to Essex Cares Ltd; £550 of this total was outstanding at 31st March 2018 (2016/17: charged interest of £21,000 (net) on amounts it lent, £7,000 of which was outstanding at 31st March 2017).</p> <p>As noted on page 125, a County Councillor held a position on Essex Cares' Board of Directors during 2017/18.</p>
Rochford District Council	The Council provided Section 151 Officer and Internal Audit support to Rochford Council during 2017/18, at a cost of £60,000 , all of which was outstanding at 31st March 2018 (2016/17: £91,000, of which £30,000 was outstanding at 31st March 2017).
South East Local Enterprise Partnership	<p>The South East Local Enterprise Partnership (South East LEP) is a business-led, public / private body established to drive economic growth across East Sussex, Essex, Kent, Medway, Southend and Thurrock. It has a range of members (including representatives from businesses, local authorities and higher / further education).</p> <p>The South East LEP secured £92.088m from the Government's Local Growth Fund in 2017/18 to support economic growth in the area, of which £15.875m was allocated to the Council to fund major transport schemes (2016/17: £6.826m). In addition, the South East LEP awarded the Council a capital loan of £1.373m from its Growing Places fund. The funding allocated to the Council by the South East LEP followed a competitive bidding process.</p>

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39. Accounting for schools

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

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

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

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

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

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

Statement of Accounts - Notes to the Financial Statements

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

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

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

The conversion process usually involves at least five elements:

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

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

40. Events after the Balance Sheet Date

The Statement of Accounts was certified by the Executive Director for Corporate and Customer Services on **31st May 2018**. Events taking place after this date were not reflected in the financial statements or notes.

Statement of Accounts - Group Accounts

Introduction

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

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

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

Contents	Page
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Group Movement in Reserves Statement	131
Group Balance Sheet	132
Group Cash Flow Statement	134
Notes to the Group Accounts	135

Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2018

2016/17					2017/18			
Gross expenditure	Government grants	Other Income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
127,686	(9,904)	(2,598)	115,184	Children and Families	138,920	(11,678)	(6,717)	120,525
32,019	(90)	(6,815)	25,114	Culture, Communities and Customer	29,133	(326)	(6,497)	22,310
14,694	-	(1,345)	13,349	Economic Growth, Skills, Infrastructure & Digital Economy	11,796	(2,519)	(1,429)	7,848
				Education				
604,700	(556,446)	(44,944)	3,310	Dedicated Schools Budget	581,423	(550,668)	(38,987)	(8,232)
158,903	(42,477)	(23,479)	92,947	Non Dedicated Schools Budget	203,580	(46,171)	(39,142)	118,267
88,466	(211)	(8,190)	80,065	Environment and Waste	95,527	(1,093)	(8,269)	86,165
636,947	(69,727)	(130,351)	436,869	Health and Adult Social Care	648,679	(87,551)	(145,038)	416,090
84,416	(1,760)	(16,379)	66,277	Highways	85,154	(16,342)	(14,887)	53,925
5,903	(196)	(1,165)	4,542	Housing, Planning and Property	6,421	(145)	(1,304)	4,972
(6,591)	(42)	(295)	(6,928)	Leader	(945)	(170)	(559)	(1,674)
17,793	(297)	(844)	16,652	Resources	15,557	(275)	(2,433)	12,849
				Recharged Strategic Support Services				
1,928	-	-	1,928	Culture, Communities and Customer	2,408	-	-	2,408
85,148	-	-	85,148	Resources	98,649	-	-	98,649
13,444	-	-	13,444	Leader	11,546	-	-	11,546
1,865,456	(681,150)	(236,405)	947,901	Cost of services - continuing operations	1,927,848	(716,938)	(265,262)	945,648
169,971	-	-	169,971	Other Operating Expenditure	115,786	-	-	115,786
123,910	-	(68,097)	55,813	Financing and Investment Income and Expenditure	125,914	-	(58,875)	67,039
-	(417,535)	(626,037)	(1,043,572)	Taxation and non specific grant income	-	(340,152)	(649,638)	(989,790)
2,159,337	(1,098,685)	(930,539)	130,113	Deficit on Provision of Services	2,169,548	(1,057,090)	(973,775)	138,683
			-	Tax expenses of subsidiary				-
			130,113	Group deficit				138,683
			(138,875)	Surplus arising on revaluation of non-current assets				(100,136)
			341	Impairment losses on non-current assets charged to Revaluation Reser				-
			408	(Surplus) / deficit arising on revaluation of available for sale financial a:				(492)
			315,670	Re-measurements of the net defined benefits pension liability				(290,535)
			177,544	Other Comprehensive Income and Expenditure				(391,163)
			307,657	Total Comprehensive Income and Expenditure				(252,480)

Group Movement in Reserves Statement

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

	Usable Reserves							Total Unusable Reserves	Total Reserves	Analysis of Reserves	
	Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves			Total Authority Reserves	Authority Share of Reserves of Subsidiary
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016	(285,442)	(79,731)	(1,095)	(660)	-	(2,791)	(369,719)	(925,517)	(1,295,236)	(1,293,481)	(1,755)
Movement in Reserves during 2016/17											
Total Comprehensive Expenditure and Income	-	131,854	(1,741)	818	-	-	130,931	176,726	307,657	308,580	(923)
Adjustments between accounting basis and funding under regulations	-	(101,504)	1,791	(1,791)	-	56	(101,448)	101,448	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	30,350	50	(973)	-	56	29,483	278,174	307,657	308,580	(923)
Transfers from Earmarked Reserves	5,918	(5,918)	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2016/17	5,918	24,432	50	(973)	-	56	29,483	278,174	307,657	308,580	(923)
Balance at 31 March 2017	(279,524)	(55,299)	(1,045)	(1,633)	-	(2,735)	(340,236)	(647,343)	(987,579)	(984,901)	(2,678)
Movement in Reserves during 2017/18											
Total Comprehensive Expenditure and Income	-	138,541	142	(2,292)	-	-	136,391	(388,871)	(252,480)	(250,330)	(2,150)
Adjustments between accounting basis and funding under regulations	-	(143,927)	(999)	999	-	178	(143,749)	143,749	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	(5,386)	(857)	(1,293)	-	178	(7,358)	(245,122)	(252,480)	(250,330)	(2,150)
Transfers to Earmarked Reserves	(5,473)	5,473	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2017/18	(5,473)	87	(857)	(1,293)	-	178	(7,358)	(245,122)	(252,480)	(250,330)	(2,150)
Balance at 31 March 2018	(284,997)	(55,212)	(1,902)	(2,926)	-	(2,557)	(347,594)	(892,465)	(1,240,059)	(1,235,231)	(4,828)

Statement of Accounts - Group Accounts

Group Balance Sheet as at 31st March 2018

31 March 2017	Note		31 March 2018	
£000			£000	£000
		Property, Plant and Equipment		
		Operational assets		
1,600,880		Land and buildings	1,571,218	
24,893		Vehicles, plant and equipment	16,425	
991,596		Infrastructure	1,075,953	
2,347		Community assets	3,117	
		Non operational assets		
114,905		Assets under construction	135,115	
34,299		Surplus assets held pending disposal	45,003	
2,768,920		Total Property, Plant and Equipment	2,846,831	
14,505		Heritage assets	14,501	
12,511		Investment property	39,920	
11,946		Intangible assets	9,523	
12,128		Long term investments	12,746	
17,342		Long term debtors	17,292	
2,837,352		Long term assets		2,940,813
230,700		Short term investments	211,561	
1,972		Inventories	8,038	
149,396	5	Short term debtors	164,244	
71,270		Cash and cash equivalents	40,573	
9,497		Assets held for sale	3,795	
373		Investment Properties held for sale	-	
463,208		Current assets		428,211
(8,227)		Short-term borrowing	(7,382)	
(250,291)	5	Creditors	(295,301)	
(9,315)		Revenue grant receipts in advance	(13,507)	
(57,268)		Capital grant receipts in advance	(54,528)	
(14,264)		Provisions (current)	(12,908)	
(6,285)		Finance lease obligations - short term	(8,028)	
(345,650)		Current liabilities		(391,654)
(112)		Long term creditors	(124)	
(24,278)		Provisions (non-current)	(30,240)	
(511,758)		Long term borrowing	(514,914)	
		Other long term liabilities		
(147,424)		Finance lease obligations - long term	(138,945)	
(13,053)		Deferred credits	(12,303)	
(1,270,706)	6	Net Pensions liability	(1,040,785)	
(1,967,331)		Long term liabilities		(1,737,311)
987,579		Net Assets		1,240,059

Statement of Accounts - Group Accounts

Group Balance Sheet as at 31st March 2018

31 March 2017	Note		31 March 2018	
£000			£000	£000
		Usable reserves		
(279,524)		Earmarked reserves	(284,997)	
(55,299)		General Fund Balance	(55,212)	
(1,045)		Profit and Loss reserve	(1,902)	
(1,633)	6	Pension reserve	(2,926)	
-		Usable capital receipts reserve	-	
(2,735)		Capital grants unapplied	(2,557)	
<u>(340,236)</u>				(347,594)
		Unusable reserves		
(578,469)		Revaluation reserve	(616,624)	
(1,340,533)		Capital Adjustments Account	(1,316,405)	
3,101		Financial Instruments Adjustment Account	3,061	
(369)		Available for Sale Financial Instruments Reserve	(861)	
1,272,339	6	Pension reserve	1,043,711	
(2,492)		Deferred capital receipts	(2,535)	
(17,426)		Collection Fund Adjustment Account	(15,696)	
16,506		Accumulating Compensated Absences Adjustment Account	12,884	
<u>(647,343)</u>				(892,465)
<u>(987,579)</u>		Total Reserves		<u>(1,240,059)</u>

Statement of Accounts - Group Accounts

Group Cash Flow Statement

For the year ended 31st March 2018

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

Statement of Accounts - Group Accounts

Notes to the Group Accounts

1. Group boundary

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

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

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

2. Accounting policies

In preparing the Group Accounts the Council has:

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

3. Group Expenditure and Funding Analysis

2016/17			2017/18		
Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement	Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
114,925	259	115,184	113,232	7,293	120,525
20,656	4,458	25,114	19,576	2,734	22,310
7,752	5,597	13,349	7,640	208	7,848
4,824	(1,514)	3,310	6,798	(15,030)	(8,232)
78,620	14,327	92,947	73,457	44,810	118,267
76,777	3,288	80,065	78,493	7,672	86,165
433,181	3,688	436,869	409,258	6,832	416,090
43,499	22,778	66,277	41,367	12,558	53,925
3,375	1,167	4,542	3,595	1,377	4,972
7,911	(14,839)	(6,928)	9,911	(11,585)	(1,674)
18,712	(2,060)	16,652	14,749	(1,900)	12,849
1,843	85	1,928	1,932	476	2,408
71,669	13,479	85,148	77,622	21,027	98,649
13,249	195	13,444	10,330	1,216	11,546
896,993	50,908	947,901	867,960	77,688	945,648
(866,593)	48,805	(817,788)	(874,203)	67,238	(806,965)
30,400	99,713	130,113	(6,243)	144,926	138,683
General Fund Balance & Profit and Loss Reserve			General Fund Balance & Profit and Loss Reserve		
(80,826)			(56,344)		
30,400			(6,243)		
(5,918)			5,473		
(56,344)			(57,114)		

4. Note to the Group Expenditure and Funding Analysis

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

2017/18	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	£000	£000	£000	£000	£000
Children and Families	644	6,659	(10)	-	7,293
Culture, Communities and Customer	1,431	1,331	(28)	-	2,734
Economic Growth, Skills, Infrastructure and Digital Economy	(275)	493	(10)	-	208
Education and Lifelong Learning					
Dedicated Schools Budget	-	-	(3,574)	(11,456)	(15,030)
Non Dedicated Schools Budget	38,580	15,514	40	(9,324)	44,810
Environment and Waste	7,143	531	8	(10)	7,672
Health and Adult Social Care	2,425	4,372	35	-	6,832
Highways	21,379	890	(7)	(9,704)	12,558
Housing, Planning and Property	968	406	3	-	1,377
Leader	1,293	(11,202)	(2)	(1,674)	(11,585)
Resources	2	20	12	(1,934)	(1,900)
Recharged Strategic Support Services					
Culture, Communities and Customer	-	469	7	-	476
Resources	15,819	5,324	14	(130)	21,027
Leader	-	1,236	(20)	-	1,216
Cost of services - continuing operations	89,409	26,043	(3,532)	(34,232)	77,688
Other income and expenditure not charged to services	(3,165)	34,571	1,600	34,232	67,238
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	86,244	60,614	(1,932)	-	144,926

Statement of Accounts - Group Accounts

5. Debtors and creditors

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

6. Defined Benefit Pension Schemes

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

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

2016/17			2017/18		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
Comprehensive Income and Expenditure Statement					
Cost of Services					
63,072	1,137	64,209	92,567	1,588	94,155
498	-	498	2,674	20	2,694
(16,304)	(2,145)	(18,449)	(14,132)	-	(14,132)
47,266	(1,008)	46,258	81,109	1,608	82,717
Financing and Investment Income and Expenditure					
31,593	(224)	31,369	33,210	(106)	33,104
31,593	(224)	31,369	33,210	(106)	33,104
78,859	(1,232)	77,627	114,319	1,502	115,821
Total charge to the Surplus / Deficit on Provision of Services					
Re-measurement of the net pensions liability					
(270,838)	(9,833)	(280,671)	(134,972)	(4,447)	(139,419)
648,705	14,424	663,129	(152,334)	2,618	(149,716)
(51,230)	(410)	(51,640)	-	-	-
956	(2,751)	(1,795)	-	-	-
(8,875)	(408)	(9,283)	-	-	-
-	(204)	(204)	-	(463)	(463)
318,718	818	319,536	(287,306)	(2,292)	(289,598)
397,577	(414)	397,163	(172,987)	(790)	(173,777)
Total charged to the Comprehensive Income and Expenditure Statement					
Movement on the Authority's General Fund Balance					
(78,859)	1,232	(77,627)	(114,319)	(1,502)	(115,821)
53,654	559	54,213	52,427	503	52,930
(25,205)	1,791	(23,414)	(61,892)	(999)	(62,891)

Statement of Accounts - Group Accounts

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

2016/17				2017/18		
Council £000	Subsidiary £000	Total £000		Council £000	Subsidiary £000	Total £000
3,288,495	67,235	3,355,730	Present value of the defined benefit obligation	3,224,588	72,528	3,297,116
(2,051,484)	(71,724)	(2,123,208)	Fair value of plan assets	(2,212,991)	(77,847)	(2,290,838)
1,237,011	(4,489)	1,232,522	Sub total	1,011,597	(5,319)	1,006,278
-	2,856	2,856	Impact of asset ceiling	-	2,393	2,393
1,237,011	(1,633)	1,235,378	Net liability arising from defined benefit obligations	1,011,597	(2,926)	1,008,671

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

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

Statement of Accounts - Group Accounts

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

2016/17				2017/18		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
1,734,248	58,431	1,792,679	Balance as at 1 April	2,051,484	71,724	2,123,208
61,275	2,180	63,455	Interest income	54,282	1,969	56,251
			Remeasurement gain / (loss)			
270,838	9,833	280,671	Return on plan assets (excl. amount incl in net interest expense)	134,972	4,447	139,419
8,875	4,318	13,193	Other	-	-	-
53,654	559	54,213	Contributions by Employer	52,427	503	52,930
16,622	283	16,905	Contributions by scheme participants	16,132	264	16,396
(85,494)	(1,165)	(86,659)	Benefits paid	(86,958)	(1,060)	(88,018)
(8,534)	(2,715)	(11,249)	Settlements	(9,348)	-	(9,348)
2,051,484	71,724	2,123,208	Balance as at 31 March	2,212,991	77,847	2,290,838

The Local Government Pension Scheme assets comprised:

31 March 2017			31 March 2018		
£000	%		£000	%	
1,450,481	68.0%	Equities	1,506,337	65.8%	
80,102	4.0%	Gilts	155,116	6.8%	
87,009	4.0%	Other bonds	86,073	3.7%	
206,455	10.0%	Property	211,714	9.2%	
63,908	3.0%	Cash and cash equivalents	83,933	3.7%	
141,201	7.0%	Alternative Assets	156,097	6.8%	
94,052	4.0%	Other managed funds	91,568	4.0%	
2,123,208	100.0%	Total assets	2,290,838	100.0%	

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

Statement of Accounts - Group Accounts

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

Statement of Accounts - Group Accounts

7. Cash Flow

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

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

Statement of Accounts - Pension Fund Accounts

Introduction

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

	Page
Fund Account	145
Net Assets Statement	146
Notes to the Pension Fund Accounts	147

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31st March 2018

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

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31st March 2018

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

Statement of Accounts - Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

1.1 General description of the Fund

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

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

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

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

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

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

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The ISC oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Strategy Board. The Fund's Investment Strategy Statement, formally known as the Statement of Investment Principles, is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website (www.essexpensionfund.co.uk).

Statement of Accounts - Pension Fund Accounts

1.2 Membership

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

Organisations participating in the Essex Pension Fund include:

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

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

1.3 Funding

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

1.4 Benefits

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

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

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

Statement of Accounts - Pension Fund Accounts

2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2017/18 (SORP). The Code also incorporates the 2015 Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes'.

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

The accounts are prepared on a going concern basis.

3. Actuarial valuation

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

3.1 Actuarial Valuation 2016

An actuarial valuation of the Essex Pension Fund was carried out as at 31st March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£4,993m** (on a smoothed basis) represented **89%** of the Funding Target liabilities of **£5,598m** at the valuation date. The valuation also showed that a primary rate of contribution of **16.3%** of Pensionable Pay per annum was required from employers. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

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

Statement of Accounts - Pension Fund Accounts

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

The main financial assumptions used were as follows:

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

The assets were assessed at market value.

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

3.2 Actuarial present value of promised retirement benefits

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

3.3 Actuarial present value of promised retirement benefits

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

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has used a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2016.

Statement of Accounts - Pension Fund Accounts

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

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

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

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

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

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

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

4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 9 which commences on page 161).

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

Statement of Accounts - Pension Fund Accounts

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 9 which commences on page 161).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

4.1.3 *Investment Income*

▪ **Dividend income**

Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 15 (page 177) of the accounting notes that accompany these financial statements.

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

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

▪ **Income from other investments**

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

▪ **Property related income**

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease.

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

▪ **Change in market value of investments**

This is recognised as income during the year and comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Statement of Accounts - Pension Fund Accounts

4.2 Fund Account – Expense items

4.2.1 *Benefits payable*

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave the Fund, or upon death.

4.2.2 *Taxation*

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 15).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investments and property expenses.

4.2.3 *Management expenses*

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

4.2.4 *Administrative expenses*

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

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

Statement of Accounts - Pension Fund Accounts

4.2.5 Oversight and governance

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

4.2.6 Investment management expenses

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

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

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

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

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

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

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are included in the Net Asset Statement on a fair value basis, as at the financial year end date of 31 March. The financial asset is recognised in the Net Asset Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

Statement of Accounts - Pension Fund Accounts

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

4.3.2 Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Pension Fund's control.

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

4.3.3 Valuation of investments

The value of investments as shown in the Net Assets Statement is determined as outlined in the following paragraphs.

▪ Market Quoted Investments

In the majority of cases, market quoted equity investments for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

▪ Unquoted Investments

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

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

▪ Directly held investments

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

Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pooled or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

Statement of Accounts - Pension Fund Accounts

- **Unit trusts and managed funds**

These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

- **Value of fixed interest investments**

Fixed interest investments in the Fund's investment portfolio are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within Note 10).

- **Direct Property Investments**

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

4.3.4 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 12).

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin. No future contracts were entered into in the year of reporting, or in the prior year.

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

4.3.5 Dividends, Interest and Foreign Currencies

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

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4.3.6 Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

4.3.7 Financial Liabilities

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

4.3.8 Contingent liabilities

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

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

4.3.9 Other financial Instruments

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

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

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

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

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5. Critical judgements in applying accounting policies

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

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31st March 2018 was **£299.5m** (31st March 2017: £297.6m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by MandG Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31st March 2018 was **£297.8m** (31st March 2017: £191.8m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31st March 2018 was **£109.9m** (31st March 2017: £102.0m).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuation are agreed with the Actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

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

7. Events after the reporting date

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

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

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

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

8. Accounting standards issued but not yet adopted

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

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

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

9. Membership activities

9.1 Membership

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

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

9.2 Pension benefits payable

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

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9.3 Contributions receivable

9.3.1 By category

Contributions receivable from employers are set out below:

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

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

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

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

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

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

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

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9.3.2 By type

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

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

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

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

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10. Investment Income

10.1 By Type

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

In line with best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However, rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis.

10.2 Investment property net rental

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

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10.3 Contractual rental receivable

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

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

10.4 Movement in the fair value of investment properties

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

11. Management expenses

11.1 By type

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

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

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

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

11.2 Investment management expenses

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

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12. Investments

12.1 Value of investments held by managers

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

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

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12.2 Investments by asset type

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

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

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.

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

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

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

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12.3 Pooled investments representing 5% or more of net assets

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

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

12.4 Single investments in excess of 5% of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

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

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

12.5 Derivative contracts

12.5.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

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12.5.2 Futures

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

12.5.3 Forward foreign currency

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

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

12.5.4 Open forward currency contracts

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

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

13. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

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

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13.1 Reconciliation of movements in AVC investments

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

13.2 Analysis of AVC investments by Provider

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

14. Current assets and liabilities

14.1 Analysis of current assets

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

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14.2 Analysis of debtors

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

14.3 Analysis of long term debtors

31 March 2017		31 March 2018
£000		£000
160	Financial strain instalments due	39
4,134	Other employer contributions due	2,830
4,294	Total	2,869

14.4 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

14.5 Analysis of current liabilities

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

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14.6 Analysis of creditors

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

14.7 Contingent liabilities and contractual commitments

As at 31st March 2018, the Fund had a commitment to contribute a further **£563.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, private debt and financing (31st March 2017: £654.7m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

15. Taxes on income

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

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

16. Related party transactions

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

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16.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£2.713m** in 2017/18 (2016/17: £2.516m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£50.011m** to the Fund in 2017/18 (2016/17: **£49.942m**). No significant amounts were owing to and due to be paid from the Fund in the year.

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

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

16.2 Governance

Under IFRS 8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year, each member of the Essex Pension Board and Investment Steering Committee is required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

16.3 Members of the LGPS

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

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

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

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

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

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

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

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2017/18 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2017/18 approximately **2%** (2016/17: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2017/18 was **£157,000** (2016/17: £156,000). The 2017/18 current service cost in respect of these personnel was **£110,000** (2016/17: £68,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

17. Agency Services

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

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The sums are disclosed below:

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

18. Financial Instruments

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

18.1 Classification of financial instruments

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

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

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

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

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

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

18.2 Net gains and losses on financial instruments

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

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

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

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18.3 Valuation of financial instruments carried at fair value

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

- **Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

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

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

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

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

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

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

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Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
		each dealing point but are not exchange traded	identical instrument	or time lapse since the transaction took place
Forward Foreign Exchange Derivatives	Level 2	Market exchange rates at the year end	Price of recent transactions for identical instrument	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period
Property	Level 3	Assets are based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund	Pricing inputs are unobservable and include situations where there is little market activity Estimated rental growth Covenant strength for existing tendencies Discount rate Land/building valuation surveys	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices and volume of sales and purchases
Distressed Debt	Level 3	The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are sustainably the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation	These techniques may include a number of assumptions relating to variables such as credit risk and interest rates	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis
Infrastructure	Level 3	The valuation of the investment assets is determined in accordance with generally accepted valuation principles in compliance with article 5(3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments
Private Equity	Level 3	The valuation of the investment are carried at fair value as determined in good faith by the General	Management's cash flow projections Estimates of growth expectations and profitability	Valuations could be affected by material events occurring between the date of the financial statements

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

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

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

18.4 Transfers between hierarchy levels

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

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

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

18.5 Reconciliation of fair value measurements within Level 3

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

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19. Nature and extent of risks arising

19.1 Risk and risk management

The Fund's primary long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Fund's investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; interest rate risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

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

19.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Investment Strategy Statement (formerly referred to as the Statement of Investment Principles) which is available from the website www.essexpensionfund.co.uk. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

19.3 Other price risk

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

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

19.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2017/18.

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

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

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

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

19.5 Sensitivity of funding position

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

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

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

19.6 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal and General (until February 2018), UBS Asset Management (from

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

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

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

19.7 Interest rate risk sensitivity analysis

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

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

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

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19.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which was managed by Legal and General Investment Management until February 2018. From 1 March 2018 it is now managed by the Fund's new passive provider UBS Asset Management. The Fund hedges 50% of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

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

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

19.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2016/17: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2016/17: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

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

19.10 Credit Risk

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

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

19.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

Monthly receipt of contributions is closely monitored by the Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a

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

19.12 Forward currency contracts

Forward currency contracts are undertaken by the Fund's appointed fund managers and Legal and General for the passive currency overlay programme until 28 February 2018. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31st March 2018 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 12.

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

19.13 Futures

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

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19.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

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

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

19.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (A as at 31st March 2017) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the ISC. The ISC have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31st March 2018 **£23.729m** (31st March 2017: £35.592m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

Cash managed externally – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31st March 2018, the total balance held in the Sterling and US dollar AAA money market funds was **£120.060m** with a smaller balance of **£29.048m** held in the custodian current account (31st March 2017: £130.930m and £25.296m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

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

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

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

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

19.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **21 June 2016**, **27%** of the Fund's assets. In 2017 the ISC took the decision to de-risk reducing its equity allocation as a result of the strategic allocation to alternatives will increase as and when opportunities arise. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment income received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31st March 2018 had immediate access to its pension fund cash holdings held internally and externally of **£172.837m** (31st March 2017: £191.818m). These monies are primarily invested on an overnight basis on the money market.

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Investment Strategy Statement outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

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19.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

19.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31st March 2018 Northern Trust had **\$8.1 trillion** of assets under custody (31st March 2017: \$7.1 trillion) and had a credit rating of **AA-** (31st March 2017: AA). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

19.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

20. 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:

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County Hall
Chelmsford
CM1 1LX

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E-mail pensions.investments.web@essex.gov.uk

Statement of Accounts - Glossary

Term	Explanation
Accruals	Sums included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuarial gains and losses	Changes in the net pensions' liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions.
Actuarial valuation	A type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Accumulating Absences	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services.
Additional voluntary contributions	Additional voluntary contributions (AVC's) are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortised cost	Amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and outstanding premium or discount.
Amortisation	Amortisation is the writing down of costs to the Comprehensive Income and Expenditure Statement over a number of years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Available for sale financial assets	Financial assets that have a quoted market price and/or do not have fixed or determinable payments.
Billing authority	City, district and borough councils are responsible for the billing and collection of Council Tax and Non domestic rates (NDR).
Cabinet	The Cabinet comprises the Leader, and other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader and are reported to the Council.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> ▪ Amounts set aside from revenue resources to repay external loans; ▪ The financing of capital payments from capital receipts and revenue reserves; and ▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of property, plant and equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.
Capital financing requirement	This is a measure of the Council's underlying need to borrow for capital financing purposes.

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Term	Explanation
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and non domestic rates.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Community Schools	Locally maintained schools that are owned and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the schools' admission criteria.
Council tax	A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).
Creditors	Amounts due, but not yet paid, for work, goods received or services received during the financial year.
Current service cost	The increase in pension liabilities as a result of service earned during the year.
Current value	A measurement reflecting the economic environment prevailing for the service or function the asset is supporting at the reporting date. Current value measurement bases include 'Existing Use Value', 'Depreciated Replacement Cost' and 'Fair Value'.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciated Replacement Cost	A method of valuation which provides a measure of the current cost of replacing an asset with a modern equivalent asset, less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. It involves imagining what the current asset would need to be substituted with in order to deliver the same level and quality of service currently being delivered.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount	Arises from prematurely repaying a loan where the prevailing interest rate is above the rate of interest payable on the loan being repaid - the Council is compensated for the interest rate differential, which is referred to as a 'discount' arising from early settlement of the loan.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.

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Term	Explanation
Employee benefits	Employee benefits include wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees.
Existing Use Value	A valuation method that estimates amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction and disregarding potential alternative uses for the asset.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see 'Leasing' and 'Operating Leases').
Financial instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Foundation Schools	Locally maintained schools that are state-funded by the Council. These schools are run by their governing body. The governing bodies employ the staff, determine the school admission policies and own the school land and buildings.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Inventories	Assets acquired or produced for resale or to be consumed or distributed in the provision of services.
Investment properties	Properties held solely to earn rentals and/or for capital appreciation purposes. This definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
Investments	<p>A long term investment is intended to be held for use on a continuing basis in the activities of the Council. Investments are so classified only where an intention to hold the investment for the long term (greater than one year) can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
Joint operations	Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.
Lease	An arrangement for securing the use of a use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.
Lessee	The party in a lease arrangement who secures the use of an asset over an agreed period of time in exchange for payment, but does not secure legal title to the asset.
Lessor	The party in a lease arrangement who retains legal title of an asset but lets out that asset to another

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Term	Explanation
	party in exchange for rental payments.
Loans and receivables	Assets that have fixed or determinable payments but are not quoted in an active market.
Non Domestic Rates	These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are collected by the billing authorities and are distributed in accordance government regulations.
Net interest on the net defined benefit liability	The change during the period in the net pension liability that arises from the passage of time. It includes interest income on plan assets and interest costs on the pension liability. It is calculated by applying the discount rate used to measure the net pension obligation at the beginning of the period to the net pension liability at the beginning of the period – taking into account any changes in the net pension liability during the period as a result of contribution and benefit payments.
Non-current assets held for sale	Property, Plant and Equipment assets that the Council is formally committed to sell and is actively marketing them in their current condition and where sale is expected within the next 12 months.
Operating lease	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. 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.

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Term	Explanation
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.
Return on plan assets	Interest, dividends and other income derived from the Local Government Pension Scheme's assets (excluding amounts included in net interest on the net defined benefit liability), together with realised and unrealised gains or losses on those assets, less costs of managing the assets and any taxes payable.
Reserves	<p>The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.</p> <p>Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.</p>
Revenue provision for repayment of debt	The minimum amount which must be charged, by Regulation, to the revenue account each year for repaying external loans.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable. This is because these are not given in exchange for services rendered by employees.
RICS	The Royal Institution of Chartered Surveyors (RICS) is the professional body for qualifications and standards in land, property, infrastructure and construction.
Salary	Salary represents the amounts received under contract of employment for services rendered, other than bonuses, allowances, benefits in kind or compensation payments.
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the 'projected unit method' reflects the benefits that the employer is committed to provide for service up to the valuation date.
SeRCOP	CIPFA Service Reporting Code of Practice provides a framework for consistent financial reporting by local authorities in order that consistency and comparability are achieved.
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific government grant	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Surplus properties	Properties not being used to deliver services but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.
Termination benefits	Termination benefits are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
Voluntary aided schools	In these schools, all of the running costs and the majority of the building costs are funded by central government via the Council. The remaining building costs are met by the religious body that owns the school land and buildings. The governing body comprising a majority of governors appointed by the

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Term	Explanation
	religious body, employs the school staff and sets the school's admission arrangements in consultation with the Council.
Voluntary controlled schools	These schools are state funded via the Council. A religious body has some formal influence in running the school, including appointing a proportion of the school governors, and owns the school land and buildings. The Council employs the school staff though, and has primary responsibility for the school's admission arrangements.

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Introduction

This statement summarises the outcome of our review of the governance arrangements that have been in place during 2017/18.

We are responsible for ensuring that there is a sound system of governance which incorporates the system of internal control. Our local [code of governance](#) is underpinned by the 7 principles of good governance set out in the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government: Framework 2016'.

Our Governance Framework comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which Essex County Council (ECC) is controlled and governed.

The Governance Framework was reviewed in January 2018 in line with current CIPFA guidance and our Code of Governance external webpages were also refreshed at the same time.

The effectiveness of key elements of the governance framework are assessed throughout the year by the Corporate Governance Steering Board, the Audit, Governance and Standards Committee, Internal Audit and other Officer and Members as required. The review of effectiveness is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Counter Fraud's annual report, our own Service Assurance Statements (completed by all Directors) and from comments received from external auditors and other review agencies and inspectorates.

Findings

The findings of this review are outlined under points 1 – 20 below:

- 1. Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.**

All our employees and Members must conduct themselves in accordance with the terms of the [Officer Code of Conduct](#) and [Member Code of Conduct](#) (part 5 of the Constitution). All new Members attended induction sessions on the code of conduct in May and June 2017.

Until September 2017 the ECC and Essex Fire Authority Joint Standards Committee's main function in relation to ECC was to promote and maintain high standards of conduct by Councillors and to help them follow the Code of Conduct. Following the abolition of the Essex Fire Authority the responsibility for standards was transferred to a reconstituted committee, known as the Audit, Governance and Standards Committee. The Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available via our website. There were no Standards complaints referred to the Committee during 2017/18.

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

In May 2016 the Council adopted a [Policy](#) that all Members are asked to undergo a Disclosure and Barring Service (DBS) check when elected. This was followed up after the May 2017 elections and all members were DBS checked.

ECC has arrangements in place for employees, consultants or contractors to raise any concerns they have in the workplace. Our Whistle-Blowing Policy is available for employees through our intranet site, and provides advice and guidance about informal and formal ways to raise concerns relating to wrongdoing.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process. These arrangements are also covered in our Anti-Fraud and Corruption corporate governance e-learning.

We have a strong counter-fraud team that supports investigations into allegations raised through any of the above routes and instigates appropriate recovery action where necessary.

All employees must declare any interests in line with our Declaration of Interests Policy, all employees are asked to complete this once a year or whenever their situation changes.

Members are required to register details of Disclosable Pecuniary Interests and a series of interests defined by the Code of Member Conduct. Declarations are required to be completed within 28 days of becoming a Member (or being re-elected or reappointed) in the Authority's Register of Members' Interests. This is set out in section 24.6 of the Constitution. In May 2017 we moved to an online form to aid efficient reporting of member interests.

2. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

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

The Chief Audit Executive is responsible for providing assurance on internal controls and ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud. The Chief Audit Executive was the Head of Internal Audit and Counter Fraud until March 2018 and is now the Head of Assurance.

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Each Executive Director is required to complete and formally sign off an evidence-based Service Assurance Statement (SAS) based on individual assessments from each Director within their functional area, accompanied by a plan setting out actions to be taken to strengthen any areas of weakness identified. These Statements were completed in March/April 2018, collated and analysed. The organisation's 2017/18 Service Assurance Statements returned an adequate overall assessment. Where necessary improvements have been identified, the relevant directors are responsible for securing remedial action in these areas.

All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet or Cabinet Members must incorporate comments from both the Section 151 Officer and Monitoring Officer before they are submitted for consideration.

In 2017 a new process was introduced to improve the quality of reports to Cabinet. The Reports are now considered at a Cabinet Agenda Setting Meeting before the public meeting. This allows members of the Cabinet and the Corporate Management Board to make the decision before they are formally submitted for Cabinet.

The scheme of delegations to officers, to committees and to cabinet members ensures that decisions are not *ultra vires* whilst allowing ECC to exercise its powers in a convenient way.

The Council seeks to comply with both the specific requirements of legislation and the general responsibilities placed on us by the common law and public law, bringing the key principles of good administrative law into our processes and decision making.

3. Documenting a commitment to openness and acting in the public interest.

Our [Publication scheme](#) which details the different classes of information ECC routinely makes available and our '[Your right to know](#)' webpage which provides guidance for the public about what information is available to them and how they can access it, including via Freedom of Information (FOI), Environmental Information and Subject Access Requests. We also publish all [responses](#) to FOI requests.

Our website is accessible to a wide audience, with relevant and regularly updated news articles on our homepage.

Copies of the agendas, documents, minutes and decisions of all of our Committees, Cabinet and Council are available promptly through our website and we have an interactive online calendar of future meetings to enable public attendance where appropriate. Audio of our Council, Cabinet and most other committee meetings are broadcast live on our website and are [available to listen to after the meeting](#).

We also publish data under the [Government's Transparency Code](#) including [Council spending](#), [Council contracts](#) and our [Counter Fraud outcomes](#).

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Our Vision and Organisational Strategy (see sections 5 and 6) outline how we commit to work in the public interest. Our commitment to transparency, as detailed above, enables the public to assess this and they can then use our [complaints policy](#) and the consultation process to feedback their views (see section 4).

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

ECC's interim [Communications and Marketing Strategy 2017/18](#) outlines how we communicate with partners and all sections of the community. It establishes the principles that guide how we communicate and engage, with openness and transparency, in language that people can understand, and through channels which are easy to access. A refreshed strategy is due to be published in May 2018.

All our communications are branded to ensure that they are easily recognised, and the information can be translated into different languages and alternative formats as required.

We continue to develop use of social media, including an active presence on Twitter, Facebook and LinkedIn. This shift of communications activities to digital channels enables citizens to self-serve, and engage with the Council in a style, time and place which suits them.

For 2017/18, **92.9%** of corporate complaints were responded to within 10 days.

Our [constitution](#) allows public speaking at our Cabinet and Scrutiny Committees and for public questions to be heard at Full Council.

ECC proactively engages with the community in order to seek out their views, actively listen to them and support them to respond. We have a range of ways in which people can be involved in shaping decisions. These are inclusive and meet individual needs. This includes statutory consultations, surveys which can be completed online or paper questionnaires plus telephone and accessible format options, focus groups, face to face interviews, ethnographic work, workshops and consultation/discussion events.

The Council has established a consultation group, which enables officers seeking to undertake consultation to discuss the requirements with experts across the Council. This seeks to ensure that the Consultation that is presented to the public engages with the target communities, and seeks a full set of responses which can be used to inform the Council's decision making.

Our consultation portal [Essex Insight](#) is used by ECC and by district, city and borough councils, to manage online consultations. The purpose of each consultation is described and contact details are given so that it is possible to take part.

We also support a range of adult service user/carer led forums - while young people are supported to provide views through a range of groups including the Young Essex Assembly and the Children in Care Council.

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ECC has a framework agreement which enables it to commission market research that can range from more traditional methods, such as surveys, through to more innovative engagement approaches such as ethnographic studies and appreciative enquiry. The framework can be used to bring additional skill and capacity to ECC and for situations that require independent research.

The process of how we engage with adults with an experience of disability is currently being reviewed. The new process of engagement will be implemented during 2018 once it has been agreed.

5. **Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.**
6. **Translating the vision into courses of action for the authority, its partnerships and collaborations.**

A [Vision](#) called 'the Future of Essex' is available on our website. The Essex vision was created alongside partners in 2017 and is intended to set out ambitions for the County until 2035.

Our [Organisational Strategy](#) 2017-21 was also refreshed in 2017 and can be found on our website. It articulates our strategic aims and priorities as well as the organisational building blocks needed to do this.

The 2017/18 budget was approved at Full Council on 14 February 2017 and the 2018/19 [budget](#) was approved on 13 February 2018. In 2018, for the first time, the Council combined the Organisation Plan and the Budget report so that our plans and how we will resource them were considered by Council at the same time.

Our employees are supported by a comprehensive individual performance management process. Our 'Perform' system allows each individual to align their goals to ECC's overarching priorities and their line manager's goals in a 'golden thread'.

The organisational redesign which started in 2016 is designed to enable ECC to meet our ambitions for the future and to take account of our financial constraints. Phase 2 of the redesign continues and it is anticipated that this will conclude by the end of the 2018.

Essex is committed to a shared vision called 'the Future of Essex' which comprises a set of ambitions which can only be delivered through effective, joined-up partnership. This sets out the Council's aims that 'whole system thinking' is the key to improving our public services, reducing costs to taxpayers and getting the best outcomes for our residents.

We have made substantial steps forward in developing partnership work in Essex. Recent examples include:

- Creating a movement of whole system leadership by our Greater Essex partnership leadership development programme. The report was the Greater Essex Leadership

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Collaborative which concluded in September 2017 and paved the way for the new 'Leading Greater Essex' programme which will commence in June 2018 and makes provision for a further 3 one year cohorts of circa 50 leaders from across public, community and voluntary sector organisations in Essex, Southend and Thurrock.

- Essex Partners are sponsoring a series of thematic projects which respond to the ambitions set out in the Future of Essex and seek to generate tangible outcomes within 12-18 months (www.essexfuture.com).
- The Greater Essex Growth and Infrastructure Framework (GIF), which was commissioned by the county and two unitary authorities to assess infrastructure requirements and funding implications;
- The Essex Economic Commission completed their final report 'Enterprising Essex: Meeting the Challenge'. This sets out key considerations and recommendations to support the Greater Essex economy in the future and was launched in March 2018.
- Launch of an emotional wellbeing and mental health service for children and young people by three local authorities (Southend, Essex and Thurrock) and seven clinical commissioning groups;
- Development of a mental health strategy for Southend, Essex and Thurrock and of pan-Essex dementia and suicide prevention strategies with the same partners.

Essex County Council works closely with NHS partners across Essex and is increasingly integrating the way we work and commission with NHS partners. This work is overseen by the Essex Health and Wellbeing Board.

As part of the Better Care Fund (BCF), ECC has established pooled funds with the five clinical commissioning groups in Essex. The BCF is "owned" by the Health and Wellbeing Board (HWB) on behalf of ECC and the five Clinical Commissioning Groups (CCGs), NHS England require that it is approved by the HWB before submission. BCF is also approved by Cabinet and the individual CCG Boards.

The Public Sector Equality Duty requires public bodies to publish one or more equality objectives every 4 years. ECC's new equality objectives for 2018-2021 were agreed by PLT and SBB in March 2018, these are closely aligned to the Organisation Strategy and Corporate Plan. A number of success measures and equality priorities have been agreed and are aligned to functional business plans.

The Essex Faith Covenant is a set of principles agreed by public services and faith based organisations. The principles aim to harness trust, build effective dialogue and break down barriers in the pursuit of delivering shared outcomes that help those most in need. Currently, the main focus for this partnership is to tackle isolation, loneliness and disadvantage in the pilot areas of Basildon, Braintree, Colchester and Chelmsford. Other partners have also expressed a desire to get involved.

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7. Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.

Article 5 of the [Constitution](#) defines the responsibilities for decision making and the principles in accordance with which decisions must be made.

The Organisational Intelligence function provides ECC with the evidence it needs to inform decisions affecting commissioning and operational service delivery, such as population analysis, demand forecasting and needs assessments, as well as enabling the organisation to manage performance, engage with citizens and service users and maintain key business intelligence systems.

All agendas, minutes and decisions taken by Cabinet members are available to the public through [ECC's website](#). We have an online committee management system which ensures easily accessible and good quality information is always available about decisions and Member meetings, this also ensures that the committee process is efficiently managed.

In 2017 a new process was introduced to improve the quality of reports to Cabinet. The Reports are now considered at a Cabinet Agenda Setting Meeting before the formal Cabinet meeting. This allows members of the Cabinet and the Corporate Management Board to improve the quality of reports and make them easier for the public to understand before they are formally submitted to a Cabinet meeting.

The Overview and Scrutiny Committees play a key role to inform and challenge decisions carried out within each service. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#). All relevant papers can be found on ECC's [Committee Management Information System](#). There were three call-ins in 2017/18.

Our intranet pages provide officers and councillors with access to information about how we deal with decision making, including easy access to guidance, including an easy to use decision tree on how to make formal decisions. Our e-learning also covers decision making (see section 13).

In 2017/18, **95.5%** of published decisions had an Equality Impact Assessment completed.

ECC has a robust Data Quality Strategy in place which had an interim review in 2017 and is due for a full review in May 2018 due to GDPR implementation.

For further information on partnerships please see section 20.

8. Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.

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To understand the performance of the organisation, there will be a basket of strategic measures focused on impact and delivery. These will be reviewed by Corporate Management Board (CMB) at Performance Board (which is now Strategic Business Board) at a quarterly meeting. These measures will work hand-in hand with information relating to finance, audit, project delivery and risk. Executive directors are responsible for developing strategic measures and associated targets within their business plans. These targets are subsequently signed off as part of business planning process by CMB to ensure consistency and challenge.

Strategic Business Board has been set up to oversee a consolidated view of performance. The board will actively consider strategic findings and issues in relation to finance, performance, project delivery, risk and audit. The board will be comprised of CMB members and meet monthly. A new organisation performance report has been established for this purpose and promotes better accessibility of performance information using dashboards and infographics so that readers are able to quickly and easily digest information.

Scrutiny plays a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of ECC's objectives and holding Cabinet to account for delivery.

Our Procurement Strategy and procedures provide a framework of best practice for all procurement activities which support ECC in achieving value for money and delivering on corporate objectives.

ECC Service Quality has been recognised nationally during 2017/18:

- The [last set of CIPFA annual benchmarking scores](#) that showed a year-on-year improvement on IT reliability and lower than average reported incidents per user compared to other organisations.
- ECC received 10 nominations in the Social Worker of the Year Awards – making up more than 10 per cent of the shortlisted entries nationwide
- Essex County Council won Transport Local Authority of the Year at this year's National Transport Awards.
- An innovative Essex scheme to repair, recycle and reuse small waste electrical items has been shortlisted for a prestigious national award.
- Essex Highways has been nationally recognised for its upkeep of roads and pavements in the county. The British Standards Institution (BSI) has rewarded the efforts of Essex County Council and its highways partner, Ringway Jacobs, with the prestigious ISO 55001 for effective maintenance of Essex roads.
- Essex County Council has achieved the prestigious Green Flag awards for Weald and Thorndon Country Parks and retained Green Flag status at Belhus, Cudmore Grove, Danbury and Great Notley.
- Essex County Council has achieved the highest level an employer can receive as part of the DWP's Disability Confident scheme, Level 3 Leader. The Disability Confident scheme, run by

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the national government promotes a disability-inclusive culture among employers across the UK.

- Superfast Essex has been recognised for its success and excellence nationally and internationally after being shortlisted for three prestigious awards. The three awards Superfast Essex has been shortlisted for are:
 - Next Gen Digital Challenge Awards – Connected Britain Award
 - UK IT Industry Awards – IT Project Team of the Year
 - World Communications Awards – Broadband Pioneer Award
- Our Quality Innovation team, supported by the Quality Improvement team, won ‘The best patient safety improvement team’ award for its work driving up standards of care for some of our county’s most vulnerable residents.
- The Intelligence and Insight team achieved a major award for their work in helping to understand the needs of parents of children with autism.
- The Virtual Dementia Tour training team won gold at the Social Worker of the Year Awards. Their entry won in the Creative and Innovative Social Work Practice category.
- Essex County Council maintained its Member Development Charter Plus Status following an assessment in March 2018.
- Employees within Essex County Council’s Adult Social Care services won the Campaign for Learning Impact Award for Inspiring Curiosity and Creativity, following Learning at Work Week which took place in May. The team has also been Highly Commended for Innovation in Learning and Development.
- Essex County Council has been shortlisted seven times in the LGC Awards, which recognises those who demonstrate excellence and best practice in their roles.

9. Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.

The law and [Constitution](#) clearly defines the responsibilities of key member and officer roles.

Part 3 of the [Constitution](#) sets out how Councillors’ authority is delegated to Cabinet Members and Officers. Chief Officers are in turn responsible for authorising delegations to their officers. All of these delegations are updated when roles or structures change.

The protocol on Member/Officer relations contained within Part 5 of the [Constitution](#) further defines the day-to-day roles and responsibilities of Officers and Members.

The Council has [Financial Regulations](#) which provide a framework to identify our financial responsibilities and the financial limits assigned to individual Officers. These also outline the responsibilities in relation to partnerships and commissioning arrangements. The Financial

Annual Governance Statement

Regulations are kept under regular review, with the last update approved at Full Council on 11 July 2017.

- 10. Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015), where they do not, explain why and how they deliver the same impact.**

Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (April 2016). Our Chief Financial Officer for 2017/18 was the Executive Director, Corporate and Customer Services.

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

For 2017/18 the Monitoring Officer was the Director, Legal and Assurance and the Assistant County Solicitor and the Principal Lawyer, Commercial Projects were the deputy monitoring officers.

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

For the year 2017/18 our Head of Paid Service was the Chief Executive.

- 13. Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

The Member Development Steering Group takes ownership of members' development and is responsible for shaping the Member Development Programme. ECC achieved the Member Development Charter Plus in November 2014, following achievement of Charter status in March 2013. In November 2016 we passed our mid-point review of Charter Plus. The full assessment took place in March 2018 where evidence was submitted to an external assessment team who then visited the Council to interview key officers, Members and partners. Essex County Council maintained Charter Plus Status following this visit.

Following elections in May 2017 all members were asked to complete a personal development planning questionnaire and then supported in developing a Personal Development Plan. By March 2018, **87%** of Members had a Personal Development Plan in place. Members were offered a comprehensive Induction after the May 2017 Election and there are regular briefing and development sessions throughout their term of office.

Organisation Development and People are launching a management development framework, which will provide development to senior officers and managers in a variety of areas as part of the change support for organisational redesign. The programme will include a focus on finance and budget management, commercial and procurement, governance and good decision making. The programme is being rolled out from May 2018.

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All employees are required to complete our comprehensive corporate governance e learning programme.

Our employees' annual training and development needs are identified through our performance management process, called 'Supporting Success'. In addition to a comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues.

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

ECC's [Risk Management Strategy 2017-21](#) was approved at Audit Committee in June 2017 and updated and approved by Audit, Governance and Standards Committee in March 2018. It is available to staff with accompanying guidance and these are reviewed at least annually to ensure they remain fit for purpose.

The Risk Assurance Statement for 2017/18 was included in the Head of Assurance Annual Report which was presented to the Audit, Governance and Standards Committee in June 2018.

ECC has a corporate risk management system that records both strategic and service risks and the assigned owners. The system provides automated prompts to risk owners for updates to recorded risks.

A Strategic Risk Report is formally considered on a bi-monthly basis by the Strategic Business Board and Political Leadership Team.

15. Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)

ECC has a dedicated Counter Fraud Team within our Assurance Service. The Counter Fraud Team delivers services to both ECC staff and to external clients. They are responsible for conducting investigations and supporting our services in providing evidence for any criminal investigations.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process.

A total of **87** referrals have been received and investigated by the Counter Fraud Team during 2017/18. The Counter Fraud Team have undertaken proactive prevention and detection work, including the National Fraud Initiative (NFI), data matching exercises, and directed fraud awareness training.

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The Audit, Governance and Standards Committee received quarterly updates in respect of counter fraud activity and a summary is included in the Head of Assurance Annual Report. The ECC Counter Fraud and Anti-Bribery Strategy was approved by Audit, Governance and Standards Committee in December 2017 and the Anti Money Laundering Strategy was approved in December 2017.

The mandatory Corporate Governance e-learning pack includes an Anti-fraud and Corruption module.

16. Ensuring an effective scrutiny function is in place.

Essex County Council has four policy and scrutiny committees in addition to the Joint Health Overview and Scrutiny Committees with Suffolk County Council and Southend and Thurrock unitary authorities.

The Corporate Policy and Scrutiny Committee is chaired by the Leader of the largest opposition group and each of the Committees has two vice-chairmen, one opposition member and one administration member.

Induction, training and support is provided to individual Members and whole committees to support them in their policy development and holding-to-account roles. Following the election in 2017 all committee members received significant levels of training and development and this continues.

The Chairmen of the four committees (and the chairman of the Audit, Governance and Standards Committee) meet as the Scrutiny Board on a bi-monthly basis, to oversee the coordination of scrutiny activity, consider its development strategically and share best practice.

There is close working between committee Chairmen, Vice-Chairman and their cabinet counterparts, regular meetings take place to discuss key areas of work and direction. In 2017/18 scrutiny in ECC was supported by a dedicated team of officers within Democratic Services (Senior Democratic Services Officers). In 2017 the Head of Democratic Services (now the Head of Democracy and Transparency) became the Statutory Scrutiny Officer.

A review of ECC's scrutiny arrangements concluded in 2017, informed primarily by interviews and workshops with key stakeholders including cabinet members, chairmen, scrutiny committees, leaders of political groups, senior officers and officers who support members. This was sponsored by the Scrutiny Board. A range of draft recommendations from the review were backed by the Scrutiny Board in March 2017 and some recommendations and changes of practice were implemented after the election.

17. Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact

Annual Governance Statement

The role of the Chief Audit Executive was transferred from the Head of Internal Audit and Counter Fraud to the Head of Assurance during 2017/2018 following the implementation of the outcomes of the organisational redesign. The Head of Assurance also has responsibilities for other operational services including Health & Safety, Risk Management, Insurance, Counter Fraud, Emergency Planning and Business Continuity. The arrangements for ensuring independence were outlined in the [Audit Charter](#) which was presented to the Audit, Governance and Standards Committee in December 2017.

Our assurance arrangements for 2017/18 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

In February 2018 the Internal Audit Function was subject to an External Quality Assessment (EQA) by CIPFA to assess its compliance with the Public Sector Internal Audit Standards. The assessor reported that she 'identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service'.

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

Following the abolition of the Essex Fire Authority in September 2017, the Audit Committee was reconstituted as the [Audit, Governance and Standards Committee](#). References in this section to the Audit Committee refer to former Audit Committee and to the new Audit Governance and Standards Committee.

The Audit Committee has undertaken the key functions required of it by Chartered Institute of Public Finance's (CIPFA) guidance on the role of audit committees. The Audit Committee role and purpose is set out in Articles of the [constitution](#).

The Committee continues to have a close working relationship with our internal and external auditors. The Audit Committee played an active role in relation to risk management and counter-fraud, as stated above.

In September 2017, the Audit Committee approved ECC's 2016/17 [Statement of Accounts](#). The Audit, Governance and Standards Committee approved the 2018/19 Internal Audit Plan in March 2018.

The Audit Committee met four times during the 2017/18 financial year, in public. [Their work](#) has included receiving internal audit and counter fraud progress reports, including detail of all limited assurance reviews from the Head of Internal Audit and Counter Fraud and the extent to which remedial recommendations have been implemented.

Internal Audit have been directly involved in supporting a number of corporate projects during the year enabling organisational change, to help ensure that appropriate control systems are in place during design, transition and implementation and that these controls are proportionate to financial cost and risk. Internal Audit's early involvement in these projects has resulted in close

Annual Governance Statement

collaboration with the relevant teams with issues being addressed promptly as they have arisen. These activities have been reported to the Audit Committee throughout 2017/18.

All recommendations arising from Internal Audit and Counter Fraud activity are tracked with monthly automated emails sent to owners of recommendations to request status updates via a web-based system. Summary reports on outstanding recommendations are presented to Functional Leadership Team meetings quarterly, with progress reports on implementation of recommendations provided to Audit Committee. The Corporate Governance Steering Board also monitor implementation of recommendations as one of their indicators of effective organisational governance. The Corporate Impact Report, which highlights overdue Major recommendations, is reported to the Corporate Management Board quarterly. This provides good accountability and visibility of Internal Audit recommendations. All reviews with a 'No' or 'limited assurance' opinion are also subject to a follow-up audit review.

19. Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.

The Chief Accountant and the Chief Audit Executive meet with the external auditors on a regular basis to discuss audit activity and ensure that appropriate support is being provided. Quarterly meetings are also held with the Executive Director for Corporate and Customer Services (the S151 Officer) to ensure the external auditors are aware of key organisational activity.

20. Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures

The Essex Partnership is a working relationship between representatives of organisations who deliver services to the public across Essex. Governance of Essex Partnership activity is the responsibility of the Essex Partners Board, who meet three times per year to steer the work of partners together to deliver shared priorities for Essex communities.

Essex Partners Board directs and oversees progress on, strategic plans which influence the decisions made to shape the future direction of policy and the provision of services within the county.

Essex Partners host Essex Assembly twice per year, where all senior partners across Essex come together to take forward delivery of the ambitions set out in the Essex vision, Future of Essex and strengthen whole system working.

Essex Partners and the Essex Health & Wellbeing Board are supported by Essex Strategic Coordination Group, who meet every 6 weeks to coordinate action responding to priorities identified by partners and partnerships across the whole Essex system.

The County Council is the accountable body for the South Essex Local Enterprise Partnership (SELEP). The SELEP has undergone a full governance review following the Mary Ney Review in

Annual Governance Statement

2017, and the guidance issued in January 2018. This has resulted in the Assurance Framework for SELEP and all policies to be reviewed, and refreshed. Where necessary new policies have been introduced where there was a gap identified within the guidance, including the introduction of a Whistleblowing Policy. These were approved by the Strategic Board in February 2018. As Accountable Body, the Council's section 151 Officer was required to provide formal confirmation to central government no later than 28 February 2018 that there is a strong and robust Assurance Framework in place, and a clear implementation plan is being followed.

NHS England has established new Sustainability and Transformation Partnerships (STPs). Essex County Council's area is covered by 3 of the 44 STPs nationally:

- Mid and South Essex (covering Braintree, Chelmsford, Maldon, Brentwood, Basildon, Castle Point and Rochford districts, and the two unitary authority areas of Southend and Thurrock)
- West Essex and Hertfordshire (covering Epping Forest, Harlow and Uttlesford)
- North East Essex and Suffolk (covering Colchester and Tendring)

The governance arrangements for STPs were developed during 2016/17 and were finalised by April 2017. In general terms they all include a Programme Board with representation at director level, as well as reporting links to the Essex Health and Wellbeing Board. STP boards do not change the individual accountabilities and responsibilities of individual organisations as STPs are not statutory.

The Essex Health Policy Overview and Scrutiny Committee (HOSC) has established two Joint Health Overview and Scrutiny Committees with neighbouring authorities in the STPs. The Essex HOSC is working with Southend and Thurrock HOSCs to consider the implications of the current STP proposals in Mid and South Essex which are largely focussing on acute hospitals at present, and in another Joint Committee is working with the Suffolk HOSC in looking at STP proposals being developed for North East Essex and Suffolk which will include looking at the proposed merger of Colchester and Ipswich hospitals. Further joint working may be developed with Hertfordshire HOSC in due course.

North East Essex and Suffolk STP has submitted an expression of interest to NHS England to be considered in the next wave of accountable care systems. These would bring commissioners and providers together across the North East Essex and Suffolk footprint to operate under a shared financial control total and to bring together commissioning and provision. This is at an early stage and Essex County Council is involved in the discussions. Any formal sign-up to the accountable care system would be subject to Cabinet decision.

Head of Assurance Opinion

The Head of Assurance's overall audit opinion on the internal control environment (framework of governance, risk management and internal control) is one of **adequate assurance**, which means that which means although there are some weaknesses which may put individual system/process/service objectives at risk of achievement, there is an overall satisfactory system of internal control,

Annual Governance Statement

appropriately designed to meet the Council's objectives, and controls are generally being applied consistently.

The Head of Assurance Annual Report provides a summary of the activity used to support this opinion and concludes that the 'adequate' opinion indicates that despite the pace of change during 2017/18 the level of assurance has remained reasonably stable. It is acknowledged that the Organisational Design has had impact on the internal control framework through the realignment of responsibilities and maintaining an overall adequate level of assurance should be viewed as a positive outcome.

External Audit

The External Auditors (Ernst and Young) provided an [unqualified opinion](#) on the 2016/17 financial statements. This was reported to the Audit Committee in September 2017.

We have received notice from Public Sector Audit Appointments Limited that the external auditors will be BDO LLP with effect from the 2018/19 financial year.

External inspections

The Council's Adult Community Learning service (ACL), which had been rated as 'Inadequate' in December 2016 was re-inspected by Ofsted in February 2018. As a result of that re-inspection Essex County Council's community learning and skills provision has been awarded an overall rating of Good.

Ofsted inspectors visited ACL (Adult Community Learning, Essex) and found that leaders, managers and staff have worked hard to improve its adult learning provision. The service was particularly praised for its welcoming, enabling, supportive and inclusive culture, highlighting that leaders, managers and staff are impressive role models.

ACL was judged to be good in all aspects of the service, including the effectiveness of leadership and management; apprenticeships; quality of teaching, learning and assessment; Adult Learning Programmes; personal development, behaviour and welfare and outcomes for learners.

Highlights of the report include:

- The quality of teaching, learning and assessment has improved markedly since the previous inspection. As a result, the large majority of learners and apprentices rapidly develop their skills and knowledge.
- Staff successfully promote safeguarding, teach learners about the 'Prevent' agenda and support the development of British values. As a result, learners are confident, knowledgeable, secure and respectful.
- Leaders and managers ensure that a greater proportion of apprentices achieve within planned timescales than previously.
- Learners studying creative courses and apprentices develop particularly high-quality practical skills.

Annual Governance Statement

- Very strong partnership working and engagement with employers bring real benefits to learners from all communities.

Ofsted pilot inspection:

- The impact of leaders on social work practice with children and families – OUTSTANDING
- The experiences and progress of children who need help and protection – GOOD
- The experiences and progress of children looked after and care leavers, and achieving permanence – GOOD

Information Governance

The ICO have made the following comments in their Decision Notices received during 2017/18, none of which have resulted in further action or Monetary Penalties:

- Of the 6 decision notices received in 2017/18 from the ICO regarding complaints made to them about ECC compliance:
 - **2** were FOI related and **4** were Data Protection related
 - **4** were not upheld (i.e. ECC had been found not to have breached the law), 1 was withdrawn and **1** was confirmed as a breach but as ECC had taken appropriate mitigating actions the ICO took no further action.

Monthly performance in responding to statutory requests for information has been above the ECC corporate target during 2017/18. This is monitored by the Corporate Governance Board on a quarterly basis.

General compliance issues relating to processing of personal data are being managed under the GDPR implementation project which runs through to May 2018. Egress, a secure way of sending emails, was implemented in 2017 for all IT users within ECC. Measures around information security are monitored by the Corporate Governance Board on a quarterly basis.

Local Government Ombudsman (LGO)

ECC received **117** contacts from the Local Government and Social Care Ombudsman (LGSCO) between 1 April 2017 to 31 March 2018, which is a significantly lower volume than **148** contacts received in 2016/17. A total of **38** escalated to formal investigation with **24** upheld finding either maladministration and/or injustice with all agreed recommendations carried out within timeframe set by the investigator. **40** cases were closed by the Ombudsman's office after initial enquiries with 14 cases not upheld. Customer team continues to work effectively with the service areas providing support and guidance on handling Ombudsman investigations, highlighting any anomalies or decisions that are not considered reasonable from the Ombudsman that may need to be challenged and ensuring deadlines are met with agreed remedies undertaken within set timescales.

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Health and Safety

There have been no prosecutions, or other enforcement notices served, under health and safety legislation, against of the Council during the financial year 2017/18.

However, the Health and Safety Executive investigated a potential breach of the Gas Safety (Installation and Use) Regulations 1998 on a Voluntary Controlled school site (i.e. where ECC is the employer but does not own the school buildings), in November 2017. At the time of writing the outcome of this investigation is not yet known. Although enforcement action is most likely to be against the contractor used by the school the HSE may still take enforcement action against other duty holders such as the school and/or ECC.

The ECC Corporate Health and Safety Team has had involvement in the review of ECC's fire safety standards, carried out by the Independent Property Review Commission, and the response to the recommendations in that report, which was published in February 2018.

Although the Corporate Health and Safety Board and activity works well, this year there have been gaps in provision of the Function health and safety forums, which are essential in ensuring the legal requirement that staff are consulted on health and safety matters, and the Function health and safety plans. These deficiencies should be addressed in the first quarter of the financial year 2018/19.

Response to the Grenfell Tower disaster

Following the Grenfell Tower disaster on 14 June 2017, the Corporate Health and Safety Manager took a report to the Operations Board on 7 July which laid out what actions had been taken as a result of the letters from various government agencies and the implications for the Council.

This included:

- Completion of a desktop exercise to identify any ECC buildings over 18m tall which had cladding;
- Responding to an Education and Skills Funding Agency request for similar information;
- Providing information to our insurers on the fire safety measures in place in ECC buildings;

Shortly afterwards an internal article was published on the issue and ECC wrote to all Essex schools and care providers to reinforce the need to ensure that fire risk assessments were up to date and fire safety arrangements were both adequate and maintained.

When the matter was raised at Full Council in July and a decision was made to establish an 'Independent Property Review Commission' (IPRC) to review the fire safety of all premises which ECC owns and/or occupies or where it has responsibility for those who occupy them. This was made up of a politically representative selection of Members and chaired by an independent subject matter expert. Its report was published in February 2017. The **14** recommendations were agreed in principle, subject to further discussion on how they would be implemented.

Annual Governance Statement

Disability Confident

ECC has been accredited as a Disability Confident Leader. ECC is now working with Purple, a disability organisation in Essex to drive forward a range of activity aimed at maintaining its leader status during 2018-2109.

Payroll incident

In August 2017, due to human error, an electronic payment file which was required to be submitted by ECC to the Bank Automated Clearing System (BACS) was not submitted by the deadline, which resulted in 308 schools and 20,812 staff (23,000 payroll payments) being paid late. It was determined through Internal Audit investigation that the internal controls for the Payroll BACS process were adequately designed; however, the failure occurred as they had not been correctly applied during operation. Recommendations were made to strengthen internal controls to mitigate the risk of reoccurrence. A further follow up Internal Audit review concluded in February 2018 that all of the original recommendations had been implemented.

Previous Governance Matters Arising

All Governance remedial actions identified in the 2016/17 Annual Governance Statement have been adequately addressed, with implementation being reviewed by the Corporate Governance Steering Board.

Action Plan


We do not consider that there have been any significant governance issues arising in 2017/18. However the actions detailed below are in place to maintain good governance arrangements throughout 2018/19.

Subject	Action(s)	Responsible Officer	Target completion date
Maintain development of new councillors	Ensure a comprehensive development offer is maintained	Head of Democracy and Transparency	Ongoing
Phase 2 of organisational redesign	Ensure good governance arrangements are maintained Delivery of a management development framework for senior managers	Chief Executive	31 December 2018
Information Governance	Monthly performance in responding to statutory requests for information to be monitored and reviewed	Head of Democracy and Transparency	Ongoing

Annual Governance Statement

Subject	Action(s)	Responsible Officer	Target completion date
Information Governance	GDPR and Data Protection Act 2018 implementation project Implementing Digital Foundations Programme to ensure its GDPR compliant	Head of Democracy and Transparency	26 May 2018 (ongoing)
Workforce Strategy	Implement the Workforce Strategy 'Getting Ready for Change - Our People Plan' as a key building block of the Organisation Strategy	Director, Organisation Development and People	31 December 2018
Corporate Peer Challenge	Enable and contribute to the Corporate Peer Challenge	Chief Executive	June 2018
Pay and Grading	Implement the new Pay and Grading arrangements for 2018/19	Chief Executive	December 2018

We have been advised on the outcome of the result of the review of the effectiveness of the governance framework and consider that the arrangements provide adequate assurance and continue to be regarded as fit for purpose in accordance with the governance framework. We are committed to monitoring the implementation of the action plan, via the Corporate Governance Steering Board, as part of the next annual review.



Cllr David Finch
Leader of the Council



Gavin Jones
Chief Executive

Independent Auditor's Report

To be added upon conclusion of the external audit

Report title: Internal Audit and Counter Fraud Annual Report 2017/18	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 4 June 2018	For: Noting
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1. The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service in accordance with proper practices. The UK Public Sector Internal Audit Standards requires that the Chief Audit Executive (at Essex this is the Head of Assurance) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's control environment (framework of governance, risk management and control).
- 1.2. The Internal Audit and Counter Fraud Annual Report (see Appendix 1) also provides oversight of Internal Audit & Counter Fraud activity for 2017/18.

2. Recommendation

- 2.1. To note the Internal Audit and Counter Fraud Annual Report and the opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

3. Summary of the issue

- 3.1. The overall internal audit opinion of the internal control environment (framework of governance, risk management and internal control) for 2017/2018 is one of **adequate** 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.

4. Policy Context

4.1. The Internal Audit Charter approved by the Audit Committee in December 2017, states that it is the responsibility of the Internal Audit & Counter Fraud Team:

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved primarily by delivering a risk based plan of audit activity including an assessment of the adequacy and effectiveness of the risk management process
- To provide advice and support to management to enable an effective control environment to be maintained; for example, advice and guidance on new design and implementation control, particularly through periods of organisational change
- To promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud and corruption
- To investigate allegations of fraud, bribery and corruption

4.2 The Head of Assurance is required to report to the Audit Committee on this activity.

5. Financial Implications

5.1 There are no financial implications as the Internal Audit activity for 2017/2018 was met within existing resources, approved by the Audit Committee in March 2017.

6. Legal Implications

6.1 Internal audit is a key way in which councillors can be assured that the Council is using its resources effectively and that the Council is discharging its fiduciary duties concerning taxpayers' money. It helps services to design systems which have appropriate controls and also helps identify and respond to breaches if they occur. This report seeks to update the Committee on the activities of the Council's Internal Audit and Counter Fraud service for the purposes of providing further assurance.

7. Staffing and Other Resource Implications

7.1 There are no staffing or resource implications.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 8.3. Equality and diversity matters have been considered in the production of the Chief Audit Executive's opinion and in the annual report.

9. List of Appendices

Appendix 1 – Internal Audit and Counter Fraud Annual Report 2017/2018

Essex County Council

Internal Audit and Counter Fraud Annual Report 2017 / 2018

Paula Clowes - Head of Assurance (Chief Audit Executive)

June 2018

Distribution:

- Audit, Governance and Standards Committee
- Leader – Councillor Finch
- Chief Executive – Gavin Jones
- Cabinet Member for Finance, Commercial and Traded Services – Councillor McKinlay
- Cabinet Member for Customer and Corporate - Councillor Barker
- Executive Director for Corporate and Customer Services (S151 Officer) – Margaret Lee
- Corporate Leadership Team

Introduction

Welcome to the annual report of Internal Audit and Counter Fraud (IA&CF) providing the Annual Internal Audit Opinion and a summary of the IA&CF activity undertaken in the financial year 1 April 2017 to 31 March 2018.

The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service in accordance with proper practices. The UK Public Sector Internal Audit Standards (PSIAS) requires that the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's control environment (framework of governance, risk management and internal control).

In March 2017 the (former) Audit Committee approved the 2017/2018 Internal Audit and Counter Fraud Plan with 2,080 audit days (excluding external clients). Progress reports on delivery and outcomes have been provided to the Audit Committee/Audit, Governance and Standards Committee throughout 2017/2018.

During 2017/2018 the Council has continued to implement significant organisational change. This has proved to be a challenging environment for delivery of a risk based audit plan as many high risk services have been in a state of upheaval at the time of audit. In line with the requirements of the PSIAS, the plan has been reviewed and adjusted, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

In order to provide the required assurances plus provide support and challenge to services IA&CF have adopted, where possible, a flexible approach during 2017/2018 undertaking health checks alongside the more traditional assurance audits. It has been necessary for audit timings to be adjusted during the year, and all changes to the audit plan have been agreed with the S151 officer and reported to the Audit, Governance and Standards Committee.

Annual Internal Audit Opinion

My audit opinion is based upon, and restricted to, the work we have performed during the year. The opinion does not imply that IA&CF has reviewed and commented on all risks and assurances relating to the Council.



Annual Internal
Audit Opinion
2017/18

My overall opinion of the internal control environment (framework of governance, risk management and internal control) is one of **adequate 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.

This adequate assurance opinion demonstrates that the control environment has remained relatively stable during 2017/2018, albeit with an increase in the percentage of limited assurance opinions. This is to be expected with the continuing challenge of transformation and budget pressures. Our annual Internal Audit Plan is risk-based and this approach means that control weaknesses will be identified because we operate an effective and correctly focussed audit regime.

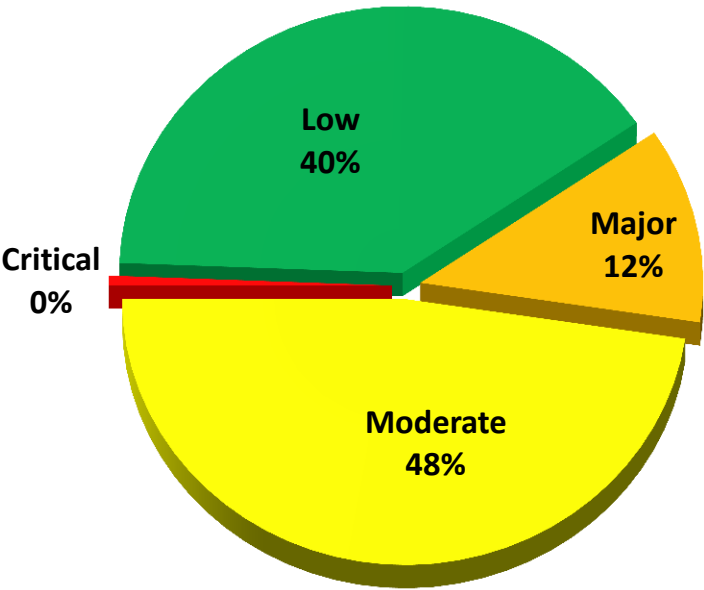
The table below show the range of assurance opinions compared to 2016/17.

Assurance Opinion (excluding schools)	2016/17 (%)	2017/18 (%)
No	1	0
Limited	18	32
Adequate	45	36
Good	36	32

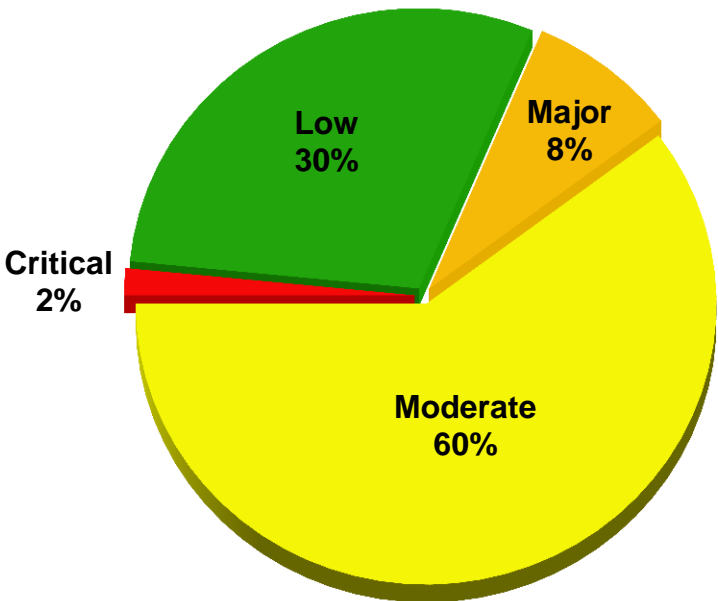
A summary of our audit opinions on finalised and draft audit reports is included on page 5 and an explanation of the basis of our opinions, assurance and risk ratings for these reports is included at appendix A. A full breakdown of the 2017/18 plan is at appendix B.

The charts below show the range of recommendation risk ratings for 2017/2018 compared to the previous year.

Audit Recommendations: 2017/18



Audit Recommendations: 2016/17



Tracking of Internal Audit recommendations takes place regularly with monthly automated emails being sent to Recommendation Owners to request status updates which they can provide via a web-based system called TeamCentral. Summary reports on outstanding recommendations are presented to Functional Leadership Team meetings on a quarterly basis, with regular progress reports on implementation of recommendations provided to Audit, Governance and Standards Committee. The Corporate Governance Steering Board also monitors implementation of recommendations as one of their indicators of effective organisational governance.

All reviews with a 'No' or 'Limited' assurance opinion are subject to a follow-up audit review.

Overview of Internal Audit Activity

Internal Audit Reports Issued Since 1 April 2018 – Assurance Opinions

*Draft report

No

- None

Limited

- Deprivation of Liberty Safeguards
- Facilities Management
- Continuing Healthcare Funding
- Social Care Case Management*
- Social Media
- IT Operations
- Personal Budgets (Families)*
- User Access Management
- Budget Monitoring*
- Off Payroll Engagement (IR35)
- Absence Management*
- User Access Management
- Declarations of Interests*

Adequate

- Building Security
- IT Security
- Early Years
- Transitions
- Oracle Integrated Assurance *
(Accounts Receivable, Accounts Payable, ePayroll, iExpenses, General Ledger, Cash Receipting, Reconciliations and Interfaces)
- Resource Utilisation (Adult Social Care) *
- Estate Management
- Information Governance*
- Health and Safety
- Financial Assessments
- Programme and Project Delivery*
- Wix and Wrabness Primary School
- Essex Highways Payment Mechanism
- South East Local Enterprise Partnership
- Personal Budgets (Adults) – direct payments - follow up

Good

- Clavering Primary School
- Noak Bridge Primary School
- North Crescent Primary School
- Gifts and Hospitality
- Better Care Fund
- Millhouse Primary School
- Holly Trees Primary School
- Doddinghurst Infant School
- Capital Programme
- Pensions Administration
- Reablement - Contract Management
- Hillhouse Cof E Primary School
- Procurement Cards
- Oaklands Infant School
- Education Management System
- Lambourne Primary School
- Treasury Management*
- Payment Processes
- Pensions Investment
- Recruitment
- Warley Primary School
- Adult Social Care Payments
- Mildmay Infant School
- St. Nicholas' Church of England Primary School
- The Bishop William Ward School
- Analytical Review of School Year End Balances

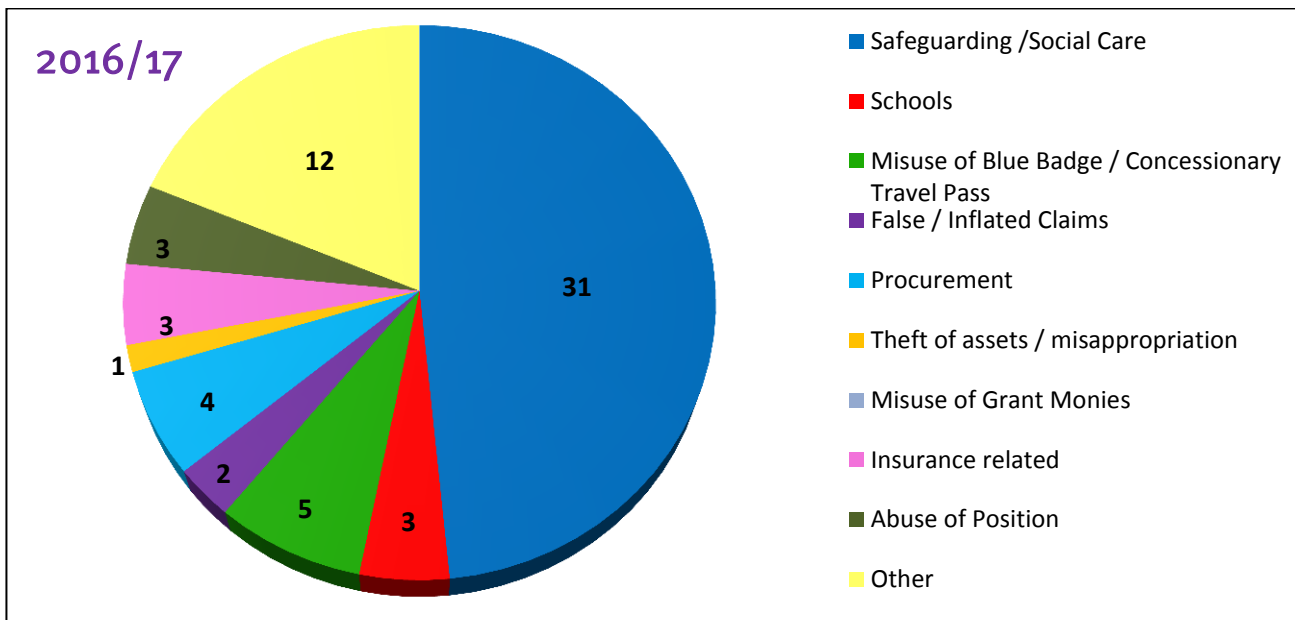
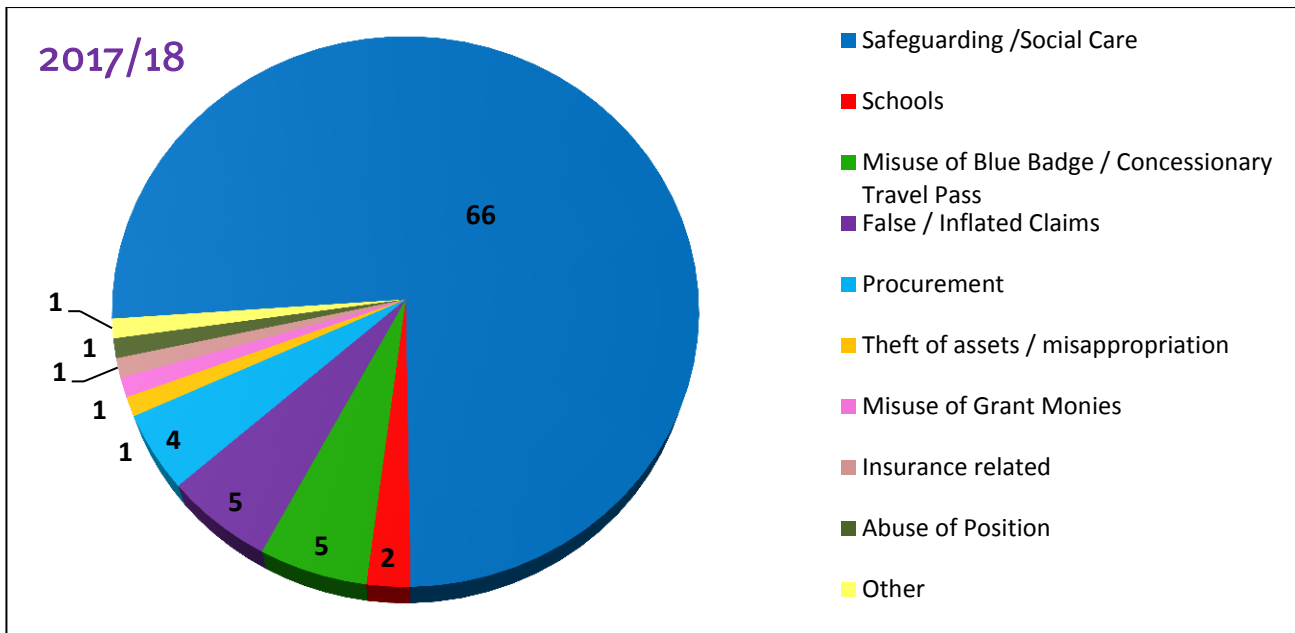
Overview of Counter Fraud Activity

ECC has a dedicated Counter Fraud Team who work alongside the Internal Audit team and report to the Head of Assurance. The team comprises 2.6 FTE and I can confirm that all staff are professionally qualified Counter Fraud Specialists. The Counter Fraud team are responsible for detecting and investigating a range of fraud matters including those committed by residents, staff and contractors.

Referrals

Referrals come from a range of sources including ECC staff and managers, internal and cross organisation data-matching (including the National Fraud Initiative), external bodies, and the general public.

The charts below show the number and type of referrals received and provide a comparison with the previous year. During 2017/18 we have seen a significant increase in referrals relating to social care payments which is in the main due to increased monitoring activity within Adult Social Care. The Counter Fraud Team has worked closely with Social Care staff to support the monitoring process. We are introducing a data matching programme to look specifically at this area in 2018/19.



Outcomes

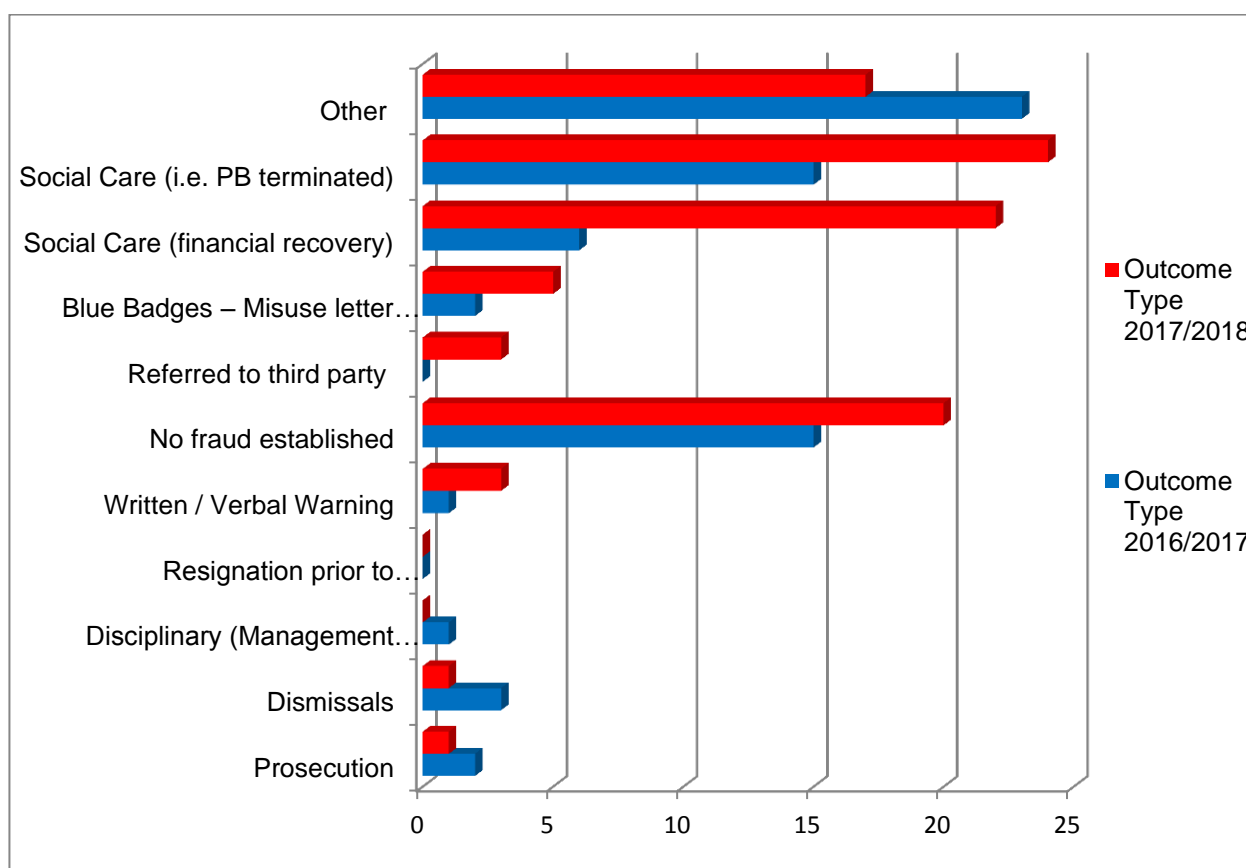
There are a range of potential outcomes after a case has been investigated. Clearly not all matters that come to our attention will have been caused by fraudulent activity. However when evidence shows wrong doing or criminal activity we will apply appropriate sanction whether that is disciplinary, prosecution or recovery of monies (or a combination of these). The table below shows our sanction activity during 2017/18.

Sanction Activity	2017/18
Prosecution	1
Dismissal	1
Monies Recovered	£90k
In Recovery	£157k
Future Losses Prevented	£352k
National Fraud Initiative recoveries	£181k

Prosecution Case

After a full investigation by the ECC Counter Fraud team a Learning Support Assistant at an ECC primary school (and treasurer of the school's PTA) was found guilty at Chelmsford Crown Court in July 2017 of stealing approximately £5,000 from the school PTA funds. At the time she was arrested police seized £2,500 cash from her home. She received a 6 month sentence, suspended for 18 months, 150 hours community order plus £2,500 compensation order.

The chart below compares our counter fraud outcomes with the previous year. In line with the increased number of social care referrals we also have an increased rate of personal budget terminations and financial recoveries.



Risk Management

The Public Sector Internal Audit Standards (Standard 2120) require the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes.

Internal Audit gathers the information to support this assessment during multiple engagements including a specific Risk Management assignment. In 2017/18 this took the form of a Risk Management Assurance Mapping project. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Taking into account the Risk Management Assurance Map and our wider assessment of Risk Management during standard audit assignments ECC Risk Management has been assessed as **adequate** in line with the overall Internal Audit opinion.

Effectiveness of Internal Audit

"The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service."

Elizabeth Humphrey, CIPFA Assessor

The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion. As such and in line with our 5 year quality assurance programme, an assessment of our compliance with the Public Sector Internal Audit Standards (PSIAS) was conducted by the Chartered Institute of Public Finance Accountancy (CIPFA) during February 2018. The assessment involved interviews with key stakeholders and document review. Two audits, carried out during the 2017/18 financial year, were fully reviewed and, a further five audits were checked. Key documents, including the Internal Audit Charter and progress reports to the Audit, Governance and Standards Committee were reviewed.

As the Head of Assurance I have assessed the qualifications of the Internal Audit team and I can confirm that all staff hold an appropriate professional qualification or are qualified through extensive experience.

Feedback is received through Customer Satisfaction Surveys issued at the end of each audit review. The survey canvasses the auditee's opinion on the following areas:

- Professionalism of Internal Audit staff
- Scope of the audit
- Execution of the audit
- Accuracy / timeliness of reporting
- Value of the audit





In 2017/18, of the 16 surveys that were returned, **100%** of customers expressed satisfaction with all aspects of the service they received. Any concerns raised by auditees are followed up by the Head of Assurance.

Appendices:

Appendix A: Assurance rating definitions

Appendix B: 2017/18 plan reconciliation.

Appendix A

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p><i>Remedial action must be taken immediately</i></p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p><i>Remedial action must be taken urgently</i></p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p><i>Prompt specific action should be taken</i></p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact.

	<i>Remedial action is required</i>
Level of Assurance	Description
Good	There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	Whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	There are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	Internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Appendix B

Audit Plan 2017/18 Reconciliation

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
COR1	Gifts & Hospitality (Members and Officers)	✓
COR2	Declarations of Interest	✓
COR3	Off-Payroll Engagement (IR35)	✓
COR4	Social Media	✓
COR5	Absence Management	✓
COR6	Procurement	In progress
COR7	Contract Management	In progress
COR8	Pre-employment Recruitment Checks	Carried forward to 2018/19 Plan
COR9	Risk Management	In progress
COR10	Health & Safety	✓
COR11	Business Continuity	In progress
COR12	Development and management of traded services	Cancelled
COR13	ECC Companies	In progress
COR14	Programme and Project Delivery	✓
COR15	Facilities Management	✓
COR16	South East Local Enterprise Partnership	✓
COR17	Performance Management Information	Carried forward to 2018/19 Plan
COR18	Information Governance	✓
KF1	Oracle Integrated Assurance Review: <ul style="list-style-type: none"> • Accounts Receivable • Accounts Payable • ePayroll • iExpenses • General Ledger • Cash Receipting • Reconciliations and Interfaces 	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
KF2	Payment Processes	✓
KF3	Budget Monitoring	✓
KF4	Pension Investment	✓
KF5	Pensions Services & Administration	✓
KF6	Treasury Management	✓
KF7	Procurement Cards	✓
KF8	Adult Social Care Payments System	✓
ICT1	IT Controls - Network and Infrastructure (Penetration Testing/Vulnerability Scanning)	✓
ICT2	User Access Management	✓
ICT3	Broadband Delivery UK	✓
ICT4	Asset Management	In progress
ICT5	IT Operations	✓
ICT6	IT Security	✓
ICT7	IT Strategy Review	Carried forward to 2018/19 Plan
ICT8	IT Disaster Recovery	Cancelled
ICT9	IT Project Assurance	Carried forward to 2018/19 Plan
ELP1	Economic Growth	In progress
ELP2	Programme and Project Delivery	Cancelled
ELP3	Pre-Birth to 19 Health, Wellbeing and Family Support Service	In progress
IE1	Asset Management (Revaluation of Highways Assets)	Cancelled
IE2	Waste Contract Management	Carried forward to 2018/19 Plan
IE3	Programme and Project Delivery	Cancelled
IE4	Essex Highways Payment Mechanism	✓
IE5	Essex Highways VFM	Third party assurance
IE6	Essex Highways	Third party assurance
IE7	Estate Management - (including	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
	Disposal of Land & Buildings)	
IE8	Building Security	✓
IE9	Capital Programme	✓
IE10	Passenger Transport	Cancelled
E1	Schools - Establishment Visits	✓
E2	Analytical Review of School Year-end Balances	✓
E3	Schools Assurance Mapping	In progress
E4	Early Years Provision	✓
E5	Education Management System	✓
ASC1	Personal Budgets (Adults) (Direct Payments)	✓
ASC2	Better Care Fund	✓
ASC3	Social Care Pre-payment Cards	Cancelled
ASC4	Adult Social Care Assessment of Needs	Cancelled
ASC5	Financial Assessments	✓
ASC6	Deprivation of liberty (DOLS)	✓
ASC7	Continuing Healthcare Funding	✓
ASC8	Resource Utilisation	✓
ASC9	Programme and Project Delivery	Cancelled
ASC10	Re-ablement Contract Management	✓
ASC11	Commissioned services for the administration of service users finances	Cancelled
ASC12	Changes to charging policy	✓
ASC13	Domiciliary Care	Carried forward to 2018/19 Plan
ASC14	Residential Care (including Supported Living)	Carried forward to 2018/19 Plan
ASC15	Local Performance Management Information	In progress
C1	Transitions	✓
C2	Personal Budgets (Families) (Direct Payments)	✓

Audit Plan Ref.	Audit Title	Status as at 22 May 2018
C3	Programme and Project Delivery	Cancelled
C4	Social Care Case Management System - Mosaic (note this is cross cutting with Adult Social Care)	✓
C5	Childrens Finances (Looked after Children)	In progress
CF1	Fraud Awareness Workshops	✓
CF2	Council Tax Initiative	✓
CF3	National Fraud Initiative (NFI)	✓
CF4	Investigations - Referrals and Case Investigation (reactive, including advice & guidance)	In progress
CF5	Blue Badge Referrals	✓
CF6	Information Breaches	✓
SOC1	Supporting Organisational Changes	✓
GRT1	Grant Claims: <ul style="list-style-type: none"> • Interreg SPONGE • Interreg PROFIT • Troubled Families • Carbon Reduction Credit Scheme • DfT – Bus Subsidy Ring Fenced (Revenue) Grant 16/17 • DfT – Local Transport Capital Block Funding (Integrated Transport & Highway Maintenance) Grant Determination 16/17 • DfE – NCTL Teacher Training Bursaries • DfE – School Specific Initial Teacher Training (ITT) • South East LEP – Local Growth Fund • Early Years Grant – health check 	✓
EXT 1	External Contract	In progress

✓ = completed - final report and/or draft report issued

Report title: Internal Audit External Assessment	
Report to: Audit Governance and Standards Committee	
Report author: Paula Clowes	
Date: 4 June 2018	For: Information
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk Tel: 03330 321474	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 This report provides the Audit, Governance and Standards Committee with the results of the recent external assessment of the level of compliance with the Public Sector Internal Audit Standards (PSIAS)

2. Recommendations

- 2.1 Members are requested to note the results of the assessment.

3. Background

- 3.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013. The standards require periodic self-assessments and an assessment or validation of a self-assessment by an external person every five years. Essex County Council's Internal Audit Service has recently (February 2018) undertaken the required self-assessment and commissioned this validation from the Chartered Institute of Public Finance Accountancy (CIPFA).
- 3.2 The validation was carried out through a process of interview and document review. Two audits were reviewed and a further five audits were checked. Key documents, including the Charter and reports to the Audit, Governance and Standards Committee (AGSC) were examined. .
- 3.3 The assessor made some practical and pragmatic recommendations and suggestions to improve compliance with the standards. The Head of Assurance has taken action to implement them, where it was agreed to do so.

- 3.4 Internal Audit was assessed against 14 standards. Only one was deemed non-complaint. This was a matter that does not impact on audit quality or delivery.
- 3.5 Overall the assessor concluded “The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service.”
- 3.6 The full report is attached at appendix 1.

4. Policy Context

- 4.1 A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
- 4.2 The Relevant Internal Audit Standard Setters (RIASS) adopted a common set of PSIAS from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
- 4.3 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced and chief audit executives are expected to report conformance on the PSIAS in their annual report. In addition standard 1312 requires an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

5. Financial Implications

- 5.1 There are no financial implications

6. Legal Implications

- 6.1 Internal Audit is a key way in which councillors can be assured that the Council is using its resources effectively and that the Council is discharging its fiduciary duties concerning taxpayers’ money. It helps services to design systems which have appropriate controls and also helps identify and respond to breaches if they occur. This report provides confirmation that the Internal Audit activity at ECC complies with the PSIAS.

7. Staffing and Other Resource Implications

7.1 There are no staffing or resource implications.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

8.3 Equality and diversity matters have been considered in the production of this report.

9. List of Appendices

Appendix 1 - CIPFA Report

FINAL
**Validation of the self-assessment of the
Internal Audit Service**

Essex County Council

Lead Associate: Elizabeth Humphrey, CPFA

**Internal QA: Don Peebles, Head of CIPFA Policy and Technical UK,
CIPFA**

19 April 2018

Validation of the self-assessment of the Internal Audit Service at Essex County Council (February 2018)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment or validation of a self-assessment by an external person every five years. Essex County Council's Internal Audit Service has recently undertaken the required self-assessment and commissioned this validation. The self-assessment also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The validation was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed two audits carried out during the 2017/18 financial year and, as part of the self-assessment, a further five audits were checked. I examined key documents, including the Charter and reports to the Audit, Governance and Standards Committee (AGSC).

The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service.

I have made some practical and pragmatic recommendations (R) and suggestions (S) to improve compliance with the standards. The Head of Internal Audit (HIA) and the Head of Assurance will need to take action to implement them and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Mission	Non-compliant	The Charter does not include the mandatory internal audit mission statement although it makes reference to aspects of it	Include the mandatory mission statement in the Charter	R1
Core principles of internal audit	Full	The core principles have been integrated into the work of internal audit and I was provided with many examples of this. One area for development is around formalising the quality assurance	See R5	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		and improvement process		
Code of Ethics	Full	All interviewees stressed the emphasis placed on integrity by the audit team and their independence and objectivity		
Attribute standards				
1000 Purpose, authority and responsibility	Partial	<p>The Charter contains almost all the required details and is discussed with senior management and the AGSC</p> <p>Standard 1000.A1 The self-evaluation identified that the Charter does not refer to the assurance work provided for ECL. An amendment is planned for the 2018 iteration of the Charter</p> <p>Standard 1000.C1 The Charter does not include a definition of the nature of consulting services, nor does it rule out such activity</p> <p>Standard 1010 The Charter does not refer to the mandatory Principles. It refers to the Code of Ethics in outline only</p>	<p>Include a definition of consultancy work in the Charter and/or rule out such work</p> <p>Include details of the Core Principles in the Charter, ideally specifying how they will be met</p> <p>Give more information about what is included in the Code of Ethics</p>	<p>R2</p> <p>R3</p> <p>S1</p>
1100 Independence and objectivity	Full	<p>Standard 1110 The independence and objectivity of the audit section was emphasised by all interviewees. However, the Annual Report contained no formal confirmation of this</p> <p>Standard 1130.A1 All of the audit team, except the trainee,</p>	<p>Include a positive confirmation of audit's continuing organisational independence in the Annual Report</p> <p>Include a section in the manual regarding</p>	<p>R4</p> <p>S2</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		are long-term auditors and there are no problems with them auditing areas where they have previously worked. This is not, however, explicitly ruled out in the manual as required by the IIA	staff transferring from other areas in the Council being blocked from auditing that area for at least one year	
1200 Proficiency and due professional care	Full	The working papers showed that audits are well planned and undertaken with care		
1300 Quality assurance and improvement programme	Partial	<p>Standard 1310 and LGAN p12 Many of the expected QAIP activities are undertaken but these are not brought together in an overarching plan</p> <p>Standard 1311 Internal quality assessments are undertaken but could involve others from within the Council to obtain a broader perspective</p> <p>LGAN p13 Although the audit team works to targets these are not reported to the AGSC in the Annual Report. In addition, these targets could be developed to give a fuller picture of audit activity</p> <p>LGAN p13 and Standards 2240.A1 and 2340 Audits are comprehensively supervised and reviewed but evidence for this is kept in a variety of places outside the TeamMate system. The audit record is, therefore, incomplete</p>	<p>Draw up an overarching QAIP plan to show the different quality checking activities over the five-year cycle</p> <p>Involve informed internal peers (officers and members) in quality reviews periodically</p> <p>Develop a suite of performance targets and report achievement against them over time in the Annual Report</p> <p>Include review notes on TeamMate</p>	<p>R5</p> <p>S3</p> <p>R6</p> <p>S4</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Performance standards				
2000 Managing the internal audit activity	Full	<p>Standard 2010 The Council's objectives are considered as part of the planning process but there is no reference to them in the Annual Plan presented to the AGSC</p> <p>Standards 2020 and 2060 Senior managers are kept informed of audit's plans and progress against those plans at individual FLT meetings but the SBB is only formally involved at the planning stage</p> <p>LGAN p17 The audit manual does not give formal guidance on informing management about emerging serious issues. This gap was identified in the self-evaluation</p>	<p>Refer to audit's contribution to achievement of the Council's objectives in the Annual Plan</p> <p>Present the Annual Report to SBB as a minimum</p>	<p>R7</p> <p>S5</p>
2100 Nature of work	Full	<p>Standard 2120.A2 Audit work undertaken covers all the expected areas. However, more explicit emphasis could be given to fraud risks where these are relevant to an audit</p>	Make more overt reference to fraud risks in audit planning and the terms of reference	S6
2200 Engagement planning	Full	<p>Planning, both at strategic and at assignment level is thorough and well-evidenced</p> <p>Standard 2201 Although auditors seek to add value and consider value for money, this is not explicitly mentioned</p>	Include a more explicit statement about seeking to add value/identify improvements in the terms of reference	S7

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		in the terms of reference		
2300 Performing the engagement	Full	Audit working papers are clear and easy to follow. They deliver the objectives of the terms of reference		
2400 Communicating the results	Partial	<p>Audit reports are clear and the summary page is a useful and innovative approach</p> <p>Standard 2440 Audits reports are not issued in the name of the HIA, which is a requirement of the Standards. With the changing role and job title of the HIA, it is particularly important that this responsibility remains clear</p> <p>Standard 2450 The overall (annual) opinion given by the HIA is clear and simple but could be more explicit about the different aspects of the opinion</p>	<p>Include the Head of Assurance's name on all audit reports</p> <p>Consider providing separate opinions for internal controls, risk management and governance arrangements</p>	<p>R8</p> <p>S8</p>
2500 Monitoring progress	Full	The follow-up process is robust and meets the requirements of the standards		
2600 Communicating the acceptance of risks	Full	There have been no occasions where unmitigated risks have had to be raised with senior management or the AGSC, showing the priority given to audit findings and recommendations across the Council		

The Head of Internal Audit and the Head of Assurance have details of the findings, standard by standard.

Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include the mandatory mission statement in the Charter	Agreed	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R2	Include a definition of consultancy work in the Charter and/or rule out such work	Agreed to include a definition – will not rule out such work.	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R3	Include details of the Core Principles in the Charter, ideally specifying how they will be met	Agreed	Greg Mortimer Paula Clowes	30 April 2018 to include the statement in the Charter. Charter to go to June 2018 Audit Governance and Standards Committee.
R4	Include a positive confirmation of audit's continuing organisational independence in the Annual Report	Agreed	Paula Clowes	By 30 May 2018 with Annual Report going to June 2018 AG&S Committee.
R5	Draw up an overarching QAIP plan to show the different quality checking activities over the five-year cycle	Agreed and will include in Annual Report	Paula Clowes	By 30 May 2018 with Annual Report going to June 2018 AG&S Committee.
R6	Develop a suite of performance targets and report achievement against them over time in the Annual Report	Agreed	Paula Clowes	Report to AG&S Committee in September 2018 and thereafter.
R7	Refer to audit's contribution to achievement of the Council's objectives in the Annual Plan	Agreed – will include for 2019/20 Plan	Paula Clowes	February 2019

No	Recommendation	Response	Responsible officer	Action date
R8	Include the Head of Assurance's name on all audit reports	Agreed. We will amend the reporting template on TeamMate.	Sarah Harris/Anita Goold	With immediate effect.

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Give more information about what is included in the Code of Ethics	Core Principles will be added to the Charter as per R3 and our Charter clearly references the Code of Ethics. Its is not felt necessary to add further detail	n/a	n/a
S2	Include a section in the manual regarding staff transferring from other areas in the Council being blocked from auditing that area for at least one year	Yes	Greg Mortimer	30 April 2018
S3	Involve informed internal peers (officers and members) in quality reviews periodically	Yes – include reference to this in the Quality Plan (R5).	Paula Clowes	30 May 2018
S4	Include review notes on TeamMate	Evidence of testing schedule review to be included on TeamMate. Evidence of draft report review and testing schedule review to be saved on L Drive for that particular audit. Include in Quality Checks to ensure it is being done.	Sarah Harris to communicate this to the Team via email. Paula Clowes	30 April 2018 30 May 2018
S5	Present the Annual Report to SBB as a minimum	This is already done.	n/a	n/a
S6	Make more overt reference to fraud risks in audit planning and the terms of reference	This already happens where fraud risk is significant. It is also included in the Audit Manual but we will remind staff.	Sarah Harris	30 April 2018
S7	Include a more explicit statement about seeking to add value/identify improvements in the terms of reference	We already do this, it is implicit, but prefer not to include in terms of reference as it will distract from the rest of its content.	n/a	n/a
S8	Consider providing separate opinions for internal controls, risk management and governance arrangements	The Chief Audit Executive provides an annual 'overall opinion' in line with standard 2450. This suggestion has been considered but we feel to provide separate opinions in the way suggested would lead to a cumbersome report which would lose its impact and effectiveness	n/a	n/a

Appendix 2: interviewees

Person	Position
Denise Abel	Risk Manager
Karen Bellamy	Counter Fraud Manager
Tione Bowazi	Senior Auditor
Paula Clowes	Head of Assurance
Sarah Collins	Senior Auditor
Cllr Terry Cutmore	Chair, Audit, Governance and Standards Committee
Fran Driver	Head of Quality and Governance (ECL)
Karen Gooch	Insurance and Risk Manager
Anita Goold	Senior Auditor
Sarah Harris	Senior Audit Manager
Gavin Jones	Chief Executive
Wendy Lancaster	Senior Auditor
Charlotte Lang	IS Senior Analyst
Margaret Lee	Executive Director for Corporate and Customer
Simon Martin	Senior Auditor
Greg Mortimer	Audit Manager
Mark Parirenyatwa	Senior Auditor
Jo Russell	Senior Auditor
Oli Taffs	Cipfa Trainee
Peter Tanton	Head of Internal Audit and Counter Fraud
Wendy Thomas	Director of Quality and Governance (ECL)
Paul Turner	Director for Legal and Assurance
Steve Willett	Audit Manager
Ian Witham	Management Information Delivery Specialist

Report title: Internal Audit Charter	
Report to: Audit, Governance and Standards Committee	
Report author: Paula Clowes, Head of Assurance	
Date: 4 June 2018	For: Approval
Enquiries to: Paula Clowes – Head of Assurance paula.clowes@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 To ask the Committee to approve a revised Internal Audit Charter. The Charter is reviewed annually, but on this occasion changes are made to implement the recommendations made by the External Quality Assessment conducted in February 2018.

2. Recommendations

- 2.1 That the Committee approve the revised Essex County Council Internal Audit Charter

3. Background

- 3.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS). The PSIAS requires internal audit to have a formal Charter that is approved by the relevant body that acts, in the terminology of the PSIAS, as the board (in ECC's case this is the Audit, Standards and Governance Committee).
- 3.2 The PSIAS require internal audit services to periodically self-assess whether they are complying with the standards and every five years commission an external person to independently assess the extent of compliance or validate a self-assessment.
- 3.3 In February 2018, CIPFA validated Internal Audit's self-assessment and made a small number of minor recommendations regarding the content of the Charter. The Charter presented at Appendix 1 takes account of these recommendations.

3.4 The recommendations made were to:

- Include the wording of, and adopt, the Internal Professional Practice Framework's mandatory mission statement for internal audit in the Charter (now in paragraph 1.2)
- Include a definition of consultancy work in the Charter (now in paragraph 5.7)
- Include details of the Internal Professional Practice Framework's Core Principles (which articulate the characteristics of an effective internal audit service) in the Charter (now in paragraphs 7.2 and 7.3).

4. Policy Context and Outcomes Framework

- 4.1 The Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS).
- 4.2 The Charter will be reviewed annually and presented to the Audit, Governance and Standards Committee.

5. Financial Implications

- 5.1 There are no financial implications.

6. Legal Implications

- 6.1 The Council's compliance with the PSIAS is a matter upon which the external auditor may express an opinion. It is also a key way of demonstrating compliance with good governance.

7. Staffing and Other Resource Implications

- 7.1 There are no staffing or resource implications.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

- 8.3 Equality and diversity matters have been considered in the production of the charter.

9. List of Appendices

Appendix 1 – Internal Audit Charter

10. List of background papers None

Essex County Council Internal Audit Charter

1. Purpose

- 1.1. Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework (IPPF) as *'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'*.
- 1.2. Internal Audit has adopted the IPPF mission statement for internal auditing being *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.
- 1.3. In a local authority context internal audit provides independent and objective assurance to the organisation, its Members, the Strategic Business Board, and assists the Executive Director for Corporate and Customer Services in discharging her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 1.4. More specifically the Accounts and Audit Regulations 2015 (the regulations) require that *'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*.
- 1.5. Public sector internal auditing standards are the Public Sector Internal Audit Standards (PSIAS) as defined by the Institute of Internal Auditors in conjunction with the Chartered Institute of Public Finance and Accountancy. The PSIAS have been adopted by Internal Audit.
- 1.6. In accordance with the regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.
- 1.7. Essex County Council defines the terminology contained within the PSIAS of 'board' as the Audit, Governance and Standards Committee, 'senior management' as the Strategic Business Board and 'chief audit executive' as the Head of Assurance.

2 Authority

- 2.1 The Internal Audit function has authority to:
 - Access any Council premises, assets, records, documents and correspondence, and control systems.

- Receive any information and explanation related to any matter under consideration.
 - Require any employee of the Council or school maintained by the Council to account for cash, stores or any other asset under his or her control.
 - Access records belonging to third parties (e.g. partners, contractors/delivery vehicles commissioned to deliver services) when required.
 - Directly access the Chief Executive, the Cabinet, the Audit, Governance and Standards Committee and Corporate Scrutiny Committee.
- 2.2 The Internal Audit function will manage all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

3. Responsibility

- 3.1 The Head of Assurance is required to provide an annual opinion on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit service has the following objectives:
- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
 - To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
 - To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
 - To provide assurance that significant risks to the Council's objectives are being managed. This is achieved primarily by delivering a risk based plan of audit activity including an assessment of the adequacy and effectiveness of the risk management process.
 - To provide advice and support to management to enable an effective control environment to be maintained; for example, advice and guidance on new design and implementation control, particularly through periods of organisational change.

- To promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud and corruption.
 - To investigate allegations of fraud, bribery and corruption (see below)
- 3.2 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and the Counter Fraud Team will investigate allegations of fraud and corruption.
- 3.3 In accordance with the Council's Counter Fraud & Anti-Bribery Strategy and Financial Regulations, members, officers, and staff must report any allegations of fraud to the Head of Assurance (in practice referrals are made to the Counter Fraud Team).

4 Reporting

- 4.1 The PSIAS require the Head of Assurance to report to the top of the organisation:
- The Internal Audit Charter is presented to the Strategic Business Board and approved annually by the Audit, Governance and Standards Committee.
 - The annual Internal Audit Plan is compiled by the Head of Assurance with input from the Chief Executive, Executive Directors, Executive Director for Corporate and Customer Services (s151 Officer), the Monitoring Officer and other key stakeholders. It is then presented to the Audit, Governance and Standards Committee for approval.
 - The adequacy, or otherwise, of the level of Internal Audit resources (as determined by the Head of Assurance) and the independence of Internal Audit will be reported annually to the Audit, Governance and Standards Committee with the annual Internal Audit Plan.
 - The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
 - Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Chief Executive, Executive Director for Corporate and Customer Services, Monitoring Officer, the Portfolio Holder with responsibility for Finance and to the Audit, Governance and Standards Committee on at least a quarterly basis.
 - Any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit, Governance and Standards Committee.

- Any significant outcomes from Internal Audit's Quality Assurance and Improvement Programme will be reported to the Chief Executive, Executive Director for Corporate and Customer Services (section 151 officer) and the Audit, Governance and Standards Committee.
- Any instances of non-conformance with the PSIAS must be reported to the Strategic Business Board and the Audit, Governance and Standards Committee and will be included in the Head of Assurance Annual Report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

5 Independence

5.1 The Head of Assurance has direct access to the:

- Executive Director for Corporate and Customer Services (s151 officer)
- Chief Executive
- Chair of the Audit, Governance and Standards Committee
- Monitoring Officer
- Any other member of the Strategic Business Board

5.2 The independence of the Head of Assurance is further safeguarded by ensuring that the annual appraisal of the postholder is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit, Governance and Standards Committee contribute to the appraisal of the Head of Assurance. This is consistent with the requirements of the PSIAS.

5.3 It is recognised that the Head of Assurance also has other operational responsibilities. It is important to ensure that these services are appropriately considered in respect of the audit planning cycle and management of planned audit activity management arrangements (full detail and rationale is provided in Appendix 1).

5.4 *Annual internal audit plan* - The risk based internal audit plan is approved by the Audit, Governance and Standards Committee and the nominated S151 Officer (the Executive Director for Corporate & Customer Services). There should be a statement within the draft plan explaining why operational areas under the control of the Chief Audit Executive are excluded.

5.5 *Undertaking internal audit assurance activity* - Where internal audit activity is included in the final plan, terms of reference should be agreed directly with the S151 officer, who will also agree the reporting lines. The S151 officer will also decide (on the approval of the audit plan) whether the review should be

undertaken by the in-house team or by an externally commissioned provider (e.g. specialist support).

- 5.6 All staff in Internal Audit are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.
- 5.7 Internal Audit may also provide consultancy services, such as advice and guidance on new design and implementation control, particularly through periods of organisational change. Consultancy work may be driven by risk-based planning but may also be at management request where the organisation's risk and control systems and processes are embryonic or not yet mature, for example where there is no system of risk management or control framework to assure.
- 5.8 Consultancy is defined using the IIA global glossary definition as '*advisory and related client service activities, the nature and scope of which are agreed with the client (i.e. service management) and which are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training*'.
- 5.9 However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit, Governance and Standards Committee.

6 Internal Audit Resources

- 6.1 It is a requirement that Internal Audit must be appropriately resourced. The Head of Assurance is responsible for appointing the staff to deliver the internal audit service and will ensure that appointments are made to ensure an appropriate mix of qualifications, experience and audit skills.
- 6.2 In addition to in-house internal audit resource, the Head of Assurance may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision.
- 6.3 The Head of Assurance is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby the Head of Assurance concluded that resources were deemed insufficient, the Head of Assurance must formally report this to the Executive Director for Corporate and Customer Services and the Audit, Governance and Standards Committee.

7. Due Professional Care and effectiveness

- 7.1. The Internal Audit service adheres to the following standards:
- UK Public Sector Internal Audit Standards

- Institute of Internal Auditors' International Code of Ethics
 - IPPF Core Principles
 - Seven Principles of Standards in Public Life (Nolan Principles)
 - All Council Policies and Procedures
 - All relevant legislation
- 7.2. The IPPF Core Principles articulate the characteristics of an effective internal audit service. For an internal audit service to be considered effective, the IPPF requires that all Core Principles must be present and operating effectively.
- 7.3. Internal Audit therefore commits to operating in accordance with the IPPF's Core Principles, which requires it to:
- demonstrate integrity
 - demonstrate competence and due professional care
 - be objective and free from undue influence (i.e. operate independently)
 - align with the strategies, objectives and risks of the organisation
 - be appropriately positioned and adequately resourced
 - demonstrate quality and continuous improvement
 - communicate effectively
 - provide risk-based assurance
 - be insightful, proactive and future-focused
 - promote organisational improvement.
- 7.4. Internal Audit is subject to a Quality Assurance and Improvement Programme which covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 7.5. The Head of Assurance is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

- 7.6. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Head of Assurance (Chief Audit Executive) – Independence Arrangements Background

The Head of Assurance role is the Council's Chief Audit Executive but this role also incorporates leadership responsibility for a range of other assurance services (namely insurance, business continuity, emergency planning, health and safety, emergency planning, risk management and counter fraud).

This appendix sets out how the Council will ensure that the requirements of independence are met to ensure that ECC's arrangements comply with the Public Sector Internal Audit Standards (PSIAS) which, for local government, are adopted by CIPFA.

Independence requirements

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF

The PSIAS (see Annex A) states that *'where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity'*. There is a more detailed interpretation:

*'The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as **periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.***

There is also additional interpretation for the Public Sector:

'When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong. The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).'

It should be noted that the 'board' in Essex County Council's Audit Charter is defined as the Audit, Governance and Standards Committee.

Potential risks

The perceived conflicts to independence:

- The composition of the annual internal audit plan (e.g. exclusion of the areas controlled by the Chief Audit Executive).
- Internal audit assurance activity undertaken on the areas controlled by the Chief Audit Executive.

Proposed process to ensure independence

Annual internal audit plan

The risk based internal audit plan is approved by the Audit, Governance and Standards Committee and the nominated S151 Officer (the Executive Director for Corporate and Customer Services).

ECC will ensure that there is a statement within the draft plan explaining why operational areas under the control of the Chief Audit Executive have been excluded.

Undertaking internal audit assurance activity

Where internal audit activity relating to services for which the chief audit executive is accountable, ECC will ensure that the terms of reference for the audit are agreed directly with the S151 officer, who will also agree the reporting lines.

When approving the annual Audit Plan, the S151 officer will also decide whether the review should be undertaken by the in-house team or by an externally commissioned provider.

Extract from Public Sector Internal Audit Standards (CIPFA) – Independence and Objectivity

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter
- approving the risk based internal audit plan
- approving the internal audit budget and resource plan
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the chief audit executive
- approving the remuneration of the chief audit executive, and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Public sector interpretation

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the *Code of Ethics* as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

Audit, Governance and Standards Committee – Work programme**Agenda item 8
AGS/15/18**

Meeting	Topic	Author	Action Required
30 July 2018	Audit Results Report (External Audit Opinion) Essex County Council 2017/2018	Ernst & Young	
	Audit Results Report (External Audit Opinion) Essex Pension Fund 2017/2018	Ernst & Young	
	Report on the Statement of Accounts (including management response to matters raised in the Audit Results Reports)	Executive Director for Corporate & Customer Services	Approval by the Statement of Accounts (Including the Annual Governance Statement)

Meeting	Topic	Author	Action Required
18 Sept 2018			

Meeting	Topic	Author	Action Required
10 Dec 2018			

