

# Hertfordshire County Council

## Statement of Accounts 2017/18



# Contents

Narrative Report	1
Statement of Responsibilities	17
Annual Governance Statement	20
Independent Auditor's Report	34
Expenditure and Funding Analysis	40
Presentation of Financial Statements – Hertfordshire County Council	43
1. Comprehensive Income & Expenditure Statement	44
2. Balance Sheet	45
3. Movement in Reserves Statement	46
4. Cash Flow Statement	47
Statement of Accounting Policies	48
Notes to the Accounts	67
Note 1: Restatement and change in accounting policies	68
Note 2: Accounting standards that have been issued but have not yet been adopted	68
Note 3: Critical Judgements in applying Accounting Policies	69
Note 4: Assumptions made about the future and other major sources on estimation uncertainty	72
Note 5: Material Items of Income and Expense	73
Note 6: Events after the Balance Sheet Date	73
Note 7: Adjustment between accounting basis and funding basis under regulations	74
Note 8: Transfers to / from earmarked reserves	78
Note 9: Other Operating Expenditure	83
Note 10: Financing and Investment Income and Expenditure	83
Note 11: Taxation and Non Specific Grant Income	83
Note 12: Property, Plant & Equipment and Investment Properties	84
Note 13: Heritage Assets	88
Note 14: Intangible Assets	90
Note 15: Capital Expenditure and Capital Financing	91
Note 16: Leases	92
Note 17: Private Finance Initiatives (PFI) and Similar Contracts	95
Note 18: Debtors	97
Note 19: Cash and Cash Equivalents	98
Note 20: Assets held for Sale	99
Note 21: Creditors	100
Note 22: Provisions	100
Note 23: Usable Reserves	102
Note 24: Unusable Reserves	103
Note 25: Cash Flow Statement – Operating Activities	108
Note 26: Cash Flow Statement – Investing Activities	109
Note 27: Cash Flow Statements – Financing Activities	109
Note 28: Notes to the Expenditure and Funding Analysis	110
Note 29: Expenditure and Income Analysed by Nature	112

# Contents

Note 30: Trading Operations	112
Note 31: Agency Services	113
Note 32: Pooled Budgets	114
Note 33: Members' Allowances	115
Note 34: Termination Benefits and Exit Packages	115
Note 35: Officers' Remuneration	116
Note 36: Pensions Schemes Accounted for as Defined Contributions Schemes	119
Note 37: Defined Benefit Pension Schemes	120
Note 38: Grant Income	127
Note 39: Dedicated Schools Grant	129
Note 40: External Audit Costs	130
Note 41: Contingent Assets	130
Note 42: Contingent Liabilities	131
Note 43: Financial Instruments	132
Note 44: Impairment Losses	136
Note 45: Nature and Extent of Risks Arising from Financial Instruments	137
Note 46: Trust Funds	142
Note 47: Related Parties	142
Note 48: Investments in Companies and Group Relationships	144
Note 49: Acquired and Discontinued Operations	145
Local Government Pension Fund Accounts	146
Firefighters' Pension Fund Accounts	178
Glossary	183

# **Narrative Report**

# Narrative Report

## Introduction

Welcome to Hertfordshire County Council's Statement of Accounts. This Narrative Report to the accounts provides an overview of the services provided by the Council, its strategic priorities and financial position. It includes:

- explanation of where taxpayers' money has been spent to provide services, both for day to day running costs (Revenue spending) and to invest in infrastructure (Capital);
- the medium term financial outlook, how we plan to meet future challenges and ensure we maximise our opportunities;
- a summary of our key financial liabilities and reserves to meet these;
- how the council has performed against its service objectives and non-financial targets during 2017/18; and
- details of our current staff resources, and priorities for workforce planning.

The Statement of Accounts gives a detailed analysis of the Council's finances in 2017/18. These are prepared in accordance with accounting and reporting standards and other statutory requirements – a brief guide to the core statements is included at the end of this report.

## Overview and External Environment

During 2017/18 Hertfordshire County Council has continued to deliver to its communities and residents despite ongoing financial challenges from reductions in funding and growing demand for services. We are committed to our 'County of Opportunity' priorities, to ensure all residents have the opportunity to thrive, prosper, be healthy and safe, and take part.

### **Hertfordshire - County of Opportunity**

Where residents have the opportunity to:

#### **Thrive**

We want every Hertfordshire resident to have the opportunity to maximise their potential and live full lives as confident citizens.

#### **Prosper**

We want Hertfordshire's economy to be strong, with resilient and successful businesses that offer employment opportunities to residents, helping them to maintain a high standard of living.

#### **Be healthy and safe**

We want Hertfordshire residents to have the opportunity to live as healthy lives as possible and to live safely in their communities.

#### **Take part**

We want to enable all Hertfordshire residents to make a more active contribution to their local areas, working with elected representatives and other community activists to tackle local issues and ensure that council services are more responsive to their priorities and ambitions.

Hertfordshire's population is growing – it is projected to increase from 1.177 million to 1.333 million by 2029 (an increase roughly equivalent to the combined population of Stevenage, Hitchin and Letchworth). This requires corresponding growth in infrastructure – schools and community facilities as well as capacity on our transport network.

## Narrative Report

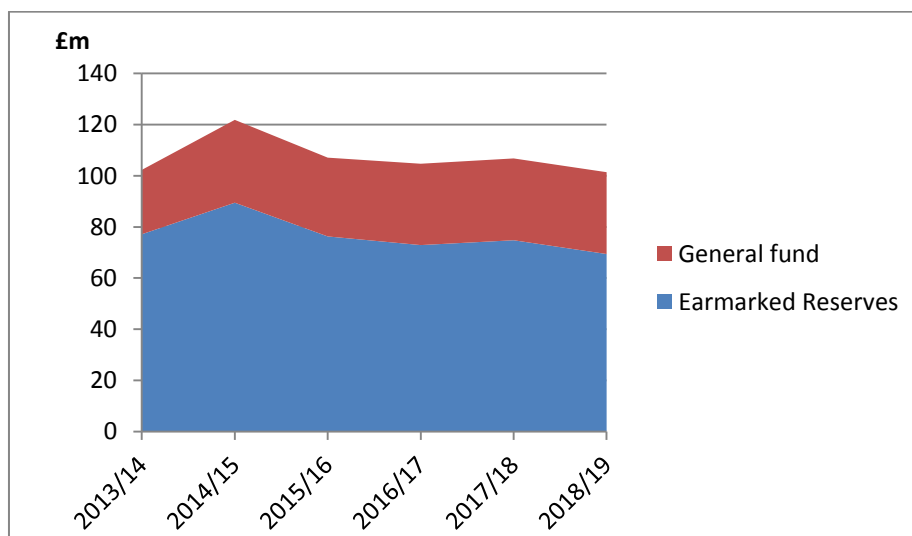
The number of children and young people under the age of 19 is forecast to grow by 17% between 2014 and 2029; and the number of over 65's by 38%. Increasing numbers of the very old means more complex care needs; demand for disability services is rising with longer life expectancy, improved diagnosis, and the responsibilities and expectations arising from the 2014 Care Act.

We continue to work closely with Health partners to deliver integrated health and social care, including projects to prevent hospital admissions and facilitate discharge, met in part from additional Better Care Fund funding provided by the government. We seek to support our social care providers as they face challenges operating in a fragile market and in recruiting staff.

As government grants fall, the council is increasingly reliant on local sources of income – business rates and especially Council Tax, including the Adult Social Care Precept, specifically used to meet demand and cost pressures (including National Living Wage). We are also promoting a commercial approach to identify new opportunities to generate income to supplement these taxes.

We maintain robust forward planning and monitoring processes, and prudent financial management, to address these challenges. We have ensured spending remains within budget during 2017/18, and are actively planning finances to 2021/22, to give time to invest in the changes required to continue to deliver activities within constrained resources whilst minimising the impact on frontline services.

We have held a consistent level of reserves over recent years and review these regularly. The majority are set aside for specific, mostly one off costs. We hold a general fund reserve of 4% of revenue budget. Active budget management has meant that any pressures arising tend to be addressed within the year. Reserves have not been needed to cover unexpected overspending in revenue budgets.



The Council has received positive feedback from our external auditors in recent years on the good practice and sound financial controls in place within the Council, most recently reported in their Value for Money assessment for the 2016/17 audit report as reported to the Audit Committee in September 2017. However, we continue to review and test our approaches to ensure we maintain this position.

Between 2010 and 2017/18, we have delivered savings that now total £285m per year (equivalent to 25% of the total budget), although our priority has been to support and minimise the service delivery impact on front line services as much as possible.

The Council holds substantial assets, including £2,145m land and buildings. Most of these are used in the delivery of our services – schools, fire stations, libraries etc, and we are mindful of the need to get maximum value from all our assets. We have established a new company, Herts Living Ltd, which is

## Narrative Report

working with a private sector partner to help meet the county's housing needs and deliver optimal income streams from some of our surplus sites.

### Use of Resources to provide Services and investment

## Where we spend **your money**



Spending against budget is managed within Service Directorates: details of this spend and how this is funded are shown in the table and charts below. This spend is reported in the Expenditure and Funding Analysis in the core statements of the accounts.

2016/17		2017/18		Over/(Under) spend £m
Actual Spending £m		Budget Spending £m	Actual Spending £m	
178.1	Children's Services	169.4	170.0	0.6
321.6	Adult Care Services	322.9	322.3	(0.6)
50	Public Health	49.4	49.4	0.0
105.9	Environment	102.4	103.4	1.0
35	Community Protection	35.6	35.8	0.2
73.8	Resources (Support for Frontline Services), Libraries	69.0	66.1	(2.9)
31.5	Capital Financing	17.6	13.7	(3.9)
2.16	Other Central Items	6.4	6.8	0.4
	Movement to Reserves	17.1	22.7	5.6
<b>797.7</b>	<b>Total Spend</b>	<b>789.8</b>	<b>790.2</b>	<b>0.4</b>
	<u>Funded By:</u>			
164	Government Grants	123.4	123.8	0.4
112.5	Business Rates	113.7	113.7	0.0
518.8	Council Tax	552.7	552.7	(0.0)
2.4	Movement (to)/ from Reserves	(0.4)	(0.4)	0.0
<b>797.7</b>	<b>Total Funding</b>	<b>789.8</b>	<b>790.2</b>	<b>0.4</b>

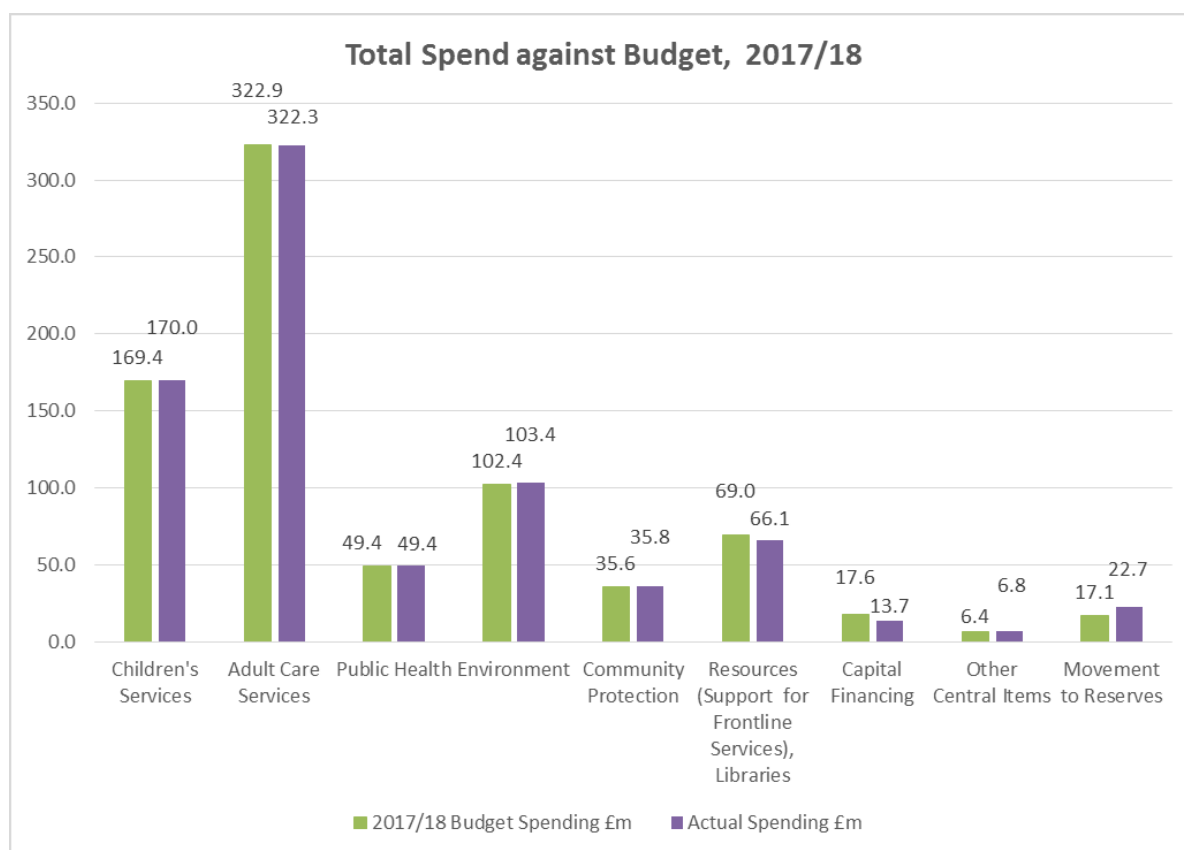
## Narrative Report

The table above shows savings against service spending of (£5.2m) together with (£0.4m) additional grant income, to give a net underspend during the year of (£5.6m) (0.75% of budget). This underspend is after adjusting for specific project and contingency budgets, ringfenced funding and government grants received in 2017/18 but to be spent in 2018/19. These amounts are being carried forward for spending in 2018/19.

£2.6m of the underspend has been set aside to give greater resilience for potential bad debts; and £3m has been transferred to a specific reserve to help meet the budget gap in future years and protect front line services. These amounts appear as the £5.6m above budget in the movement to reserves.

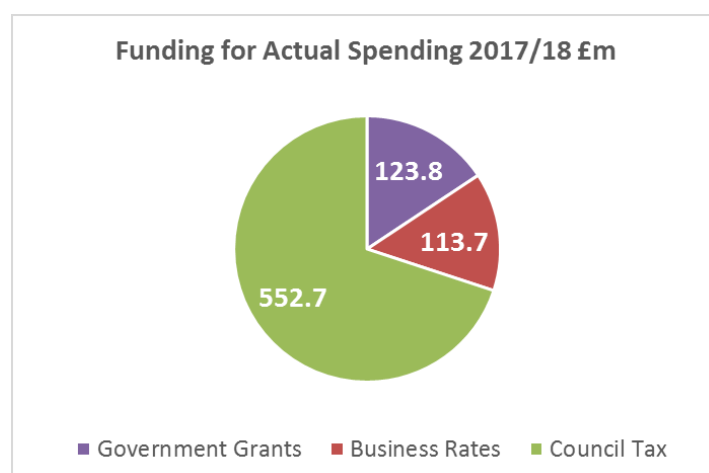
The £17.1m movement to reserves includes £6.4m of ringfenced grants that are being taken forward to be spent in line with government requirements in 2018/19. A further £5.4m relates to amounts to be spent for specific purposes in 2018/19, where the cash funding was provided to the Council by government in 2017/18. These amounts will also be taken forward to be spent for specific purposes in 2018/19.

The underspend is slightly higher than last year (2016/17 net underspend £3.3m), reflecting the early achievement of some savings planned for 2018/19 onwards, along with careful management of emerging pressures. For example, action taken within Children's Services mitigated rising costs in home to school transport with early achievement of efficiencies; savings arising from changes in capital financing policy meant that spend on winter highways gritting and maintenance could exceed budget without creating financial pressures.



Spend is offset by some income from fees and charges. The net position is funded from council tax, business rates and government grant.

## Narrative Report



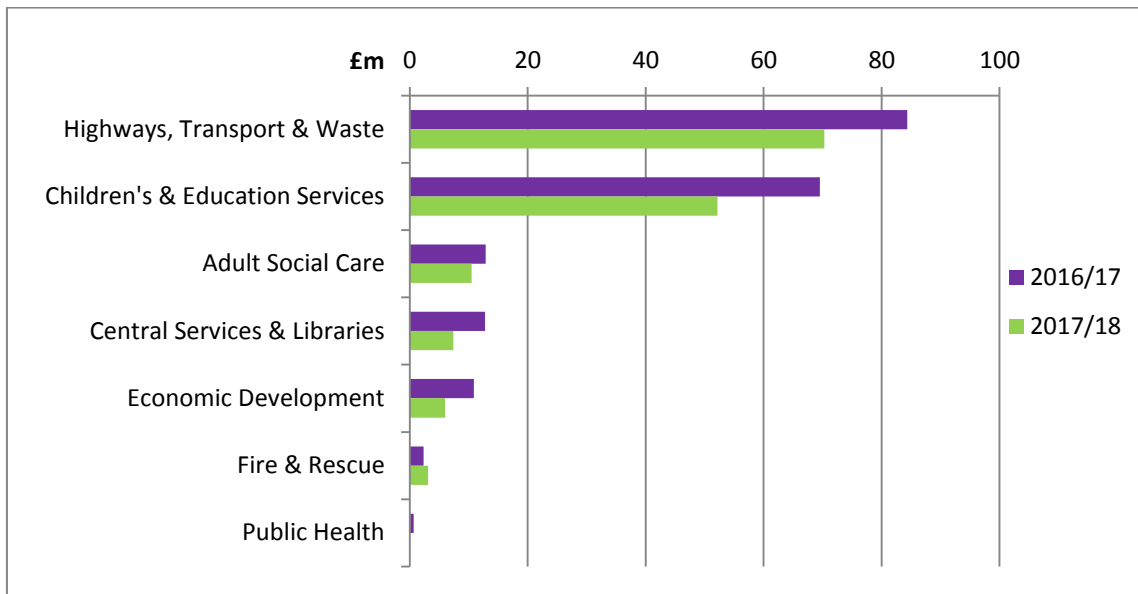
## Capital Spending

Capital Investment and Funding		
	2016/17 £'m	2017/18 £'m
Adult Social Care	12.9	10.5
Central Services incl Libraries	12.8	8.7
Children's & Education Services	69.5	52.2
Fire & Rescue	2.4	3.1
Highways, Transport & Waste	84.4	70.3
Economic Development	10.9	6.0
Public Health	0.7	0.0
<b>Total Capital Spend</b>	<b>193.4</b>	<b>150.8</b>
<b>Funded by</b>		
Grants and Contributions	(127.0)	(90.1)
Capital receipts	(9.7)	(18.1)
Revenue Expenditure	(11.8)	(9.5)
Reserves	(9.5)	(1.1)
Borrowing	(35.5)	(32.0)
	<b>(193.4)</b>	<b>(150.8)</b>

We have invested in the infrastructure needed to deliver services and meet the needs of residents and local businesses. Schemes are planned within a medium term Capital Programme, and are all supported by a robust business case which is reviewed annually. The 2017/18 – 2019/20 Programme provided for total investment of £616m, and includes schemes to provide additional school places needed at primary and secondary level; maintenance of the road network and major improvement schemes; and continued investment in maintenance of our buildings and ICT.

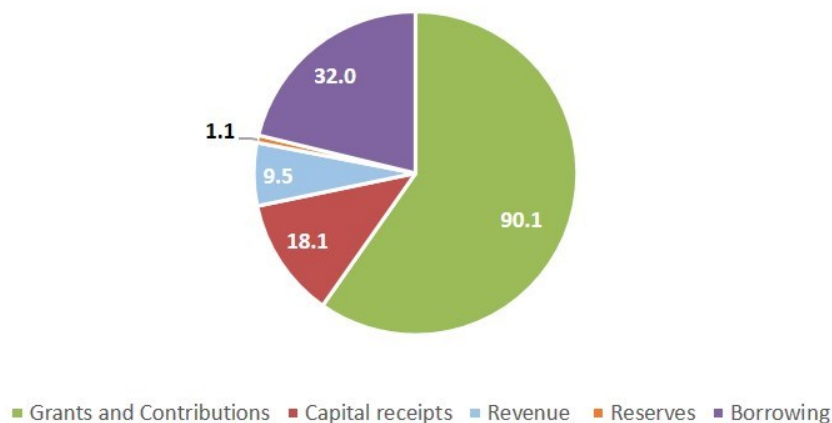
# Narrative Report

## Total Capital Investment, 2016/17 and 2017/18



As shown below, a substantial proportion of the Council's Capital Programme is funded from government grant, including much of the schools expansion and maintenance programmes, and roads maintenance and improvement. Capital receipts from selling surplus assets have been used to fund new capital spend; and some reserves and revenue budget are also used in order to minimise borrowing with its associated costs. £32m spend in 2017/18 needs to be funded from borrowing, although this is being met from internal cashflow. There has been no new external borrowing since 2011, and the Council's total borrowing is £261m.

## Total Capital Funding 2017/18 £m



## Strategy & Resources - Medium term financial strategy

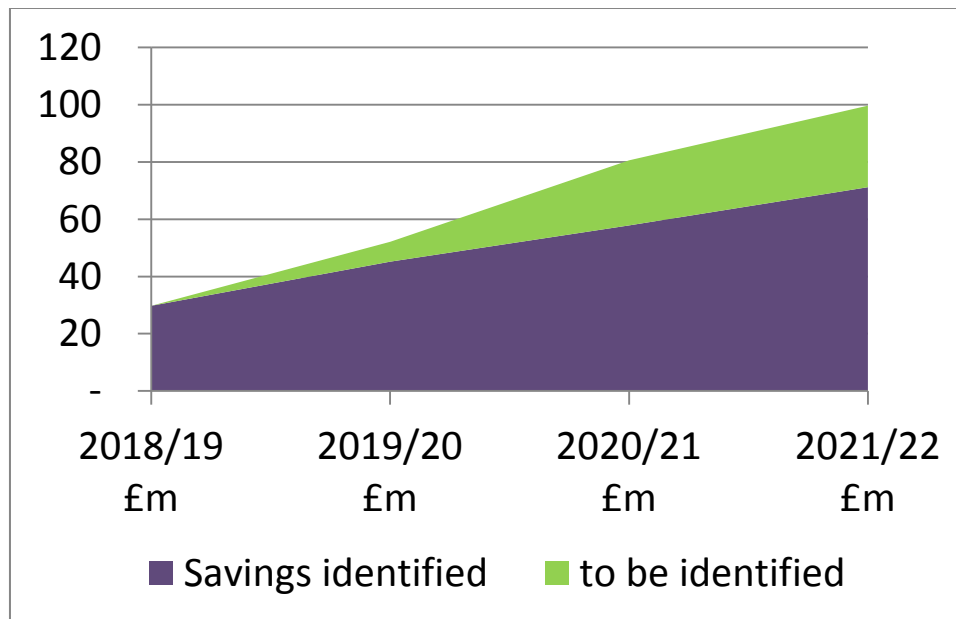
The Council prepares an Integrated Plan (IP) for the medium term, which links the Council's resources to its corporate and service plans. Details can be found on our website at [www.hertfordshire.gov.uk/integratedplan](http://www.hertfordshire.gov.uk/integratedplan).

During 2017/18 we extended the Integrated Plan to 2021/22, to enable forward planning to deliver the service change necessary to set future budgets within available resources. However, while funding to 2019/20 (the previous IP end date) falls within the Government's four year settlement agreement,

## Narrative Report

subsequent years will depend on future changes to local Council financing and assessment of needs, along with any changes in the Government's wider economic strategy. Future decisions on funding for social care will be crucial: the IP assumes that funding additional Improved Better Care Fund announced in the March 2017 Budget will continue at the same level in 2020/21 and 2021/22: as yet there is no information on these years, and this funding is by no means guaranteed.

On current estimates, the IP projects a savings gap of £6.6m for 2019/20, rising to over £28m by 2021/22. This assumes that a number of challenging efficiency savings are achieved: delivery of these is being closely monitored, while further savings options are being explored. The chart below shows savings that have been identified and need to be achieved from 2018/19, and the remaining budget gap where savings need to be identified.



Despite these challenges, we want Hertfordshire to continue to be a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. The Integrated Plan supports this by delivering:

- Support for vulnerable people: additional funding to address growing demand and changing needs, including for disability services; support for the paid and unpaid care workforce to attract and retain people into vital caring roles;
- Investment to help meet the challenges of a growing county: additional investment in Hertfordshire's road network, with additional investment of £26m over the next 4 years into our core road network to ensure they are maintained to the high standards residents expect, plus a one-off programme of funding for our local roads to improve standards across this element of the network at a cost of £29m over the first four years;
- The establishment of a dedicated Growth and Infrastructure team to provide the capacity and expertise to respond to the planned economic and population growth across the county, and resource for this team to develop proposals and ensure Hertfordshire is well placed to bid for major infrastructure funding;
- Continued investment in service transformation: for example in Adult Social Care – funding for a proposed transformation programme to design and implement new approaches to commissioning care for older people and adults with disabilities; and
- A continued focus on prevention, for example through our innovative approach to the way social care is provided to Hertfordshire's most vulnerable families, intervening early to support families

## Narrative Report

by preventing problems before they arise and so cutting the need for services rather than the services themselves; and in adult social care, for example by exploring opportunities to use digital technology to foster independent living.

### Getting the most from our assets

- Through our Property Development Programme and the establishment of a joint venture with the private sector, we are taking a new approach to the disposal and development of our assets, exploring ways in which the council can benefit from profits, rather than only seeking upfront receipts from asset sales, to generate a better capital return and for some schemes, a future income stream. Both these will help support Council services as financial challenges continue.

### Resources and Liabilities

Like all major organisations, the Council holds reserves to meet likely future costs and to provide resilience to meet unexpected events. Each year we review these reserves to ensure they are sufficient and are still required for their original purpose. Any that are no longer needed are released for general use. By reviewing and replenishing these resources, our reserves have remained stable over recent years.

The reserves held at the end of 2017/18 are set out in the Movement in Reserves Statement and also in the notes to the accounts. These set out that the majority of the reserves held are technical reserves held for the purpose of proper accounting ('unusable' reserves).

The 'usable reserves' are shown on the face of the Movement in Reserves Statement to the value of £188.105m. However, this figure includes several amounts that are not controlled directly by the Council.

A summary of the reserves held is therefore shown in the table below, showing where these are controlled by the Council and where they are not. This highlights that the Council holds a significant amount on behalf of third parties (chiefly local schools), with smaller amounts set aside to manage volatility in future costs, and investment and development of Council services. A limited amount relates to decisions of the Council where funds could be redirected to other purposes.

Area	Examples	Total Value (usable reserves)	% of HCC turnover
Held on behalf of or related to third parties (not directly controlled)	Balances accumulated by schools; balances carried forward and held on behalf of the Local Enterprise Partnership (LEP), or accumulated surpluses held by local authority shared services (such as the Shared Internal Audit Service or the Shared Anti-Fraud Service)	£103.160m	6%
Ringfenced to specific purposes (not fully controlled)	Includes funds allocated for specific purposes by government such as Public Health Grant, Better Care Fund, SEND reform grant; also funds to address old, doubtful or bad debts owed to the Council; also funds allocated to help manage future volatility (for example for waste PFI, self-insurance, or the impact of schools converting to academy status).	£47.242m	3%

## Narrative Report

Area	Examples	Total Value (usable reserves)	% of HCC turnover
Future Investment plans (directly controlled)	Funds held to support future investment and development of HCC services to ensure that they continue to adopt best practice and maximise efficiency (e.g. new computer systems, transition to significantly different business models for different Council services).	£27.183m	2%
Discretionary funds (directly controlled)	These are funds set aside by agreement with Councillors to meet future liabilities or plans. They could be redirected, but this would require a new decision.	£10.521m	1%
		<b>£188.105m</b>	

In addition, a fund is held specifically against unanticipated costs. This is intended to be held at c4% of HCC service budgets, and is shown in the Movement in Reserves Statement as the 'General Fund Balance', which is £31.497m. This is intended for unanticipated costs or events, in order that the operations of the Council can continue under all circumstances without significant interruption of services (other usable reserves all have specific purposes attached to them).

### Providing for the future

With prudent financial management in previous years, we have created a dedicated reserve, the Invest to Transform Fund, to provide upfront investment to help deliver the future revenue savings required. This has supported schemes such as the rollout of energy efficient LED street lighting; the set-up of Herts Living Ltd and our property development partnership; and improved online payments that enable self-service access and more streamlined processes for Hertfordshire residents and service users.

The 2018/19 budget provides for a further £5.2m to be added to this fund. £4.9m of this has been allocated to invest in service transformation to deliver a range of savings in Adult Social Care. Other services are developing similar transformation plans, to be met from this resource.

We have also created a Transition Reserve to provide some protection to services as we bridge future budget gaps - £3m has been added at end 2017/18, with a further £6.3m to be set aside in 2018/19

The Pensions Liability recognised on the Balance Sheet at year end has a significant impact on the net worth of the Council. Whilst pension benefits do not become payable until employees retire, the Council is required to account for these as employees earn these benefits, even though the cash payments may be many years in the future. During 2017/18, the liabilities decreased by £34.456m to £1,030.9m. There have been positive asset returns and the net discount rate has increased by 0.1% p.a. at 31 March 2018, compared to 31 March 2017, which serves to decrease the value placed on the obligations in the balance sheet.

# Narrative Report

## Performance

Hertfordshire County Council (HCC)'s corporate plan sets out the Council's key priorities for the county and how it intends to deliver its vision for Hertfordshire as a County of Opportunity

During 2017/18, HCC has delivered significant achievements within these priorities, which are set out in the Annual Report at [www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/annual-report-2017.aspx](http://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/annual-report-2017.aspx). We monitor a range of performance indicators during the year, with the results reported quarterly and published on the Performance Dashboard at <https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/>.

Headline performance indicators for 2017/18 include:

- During 2017-18 Hertfordshire supported almost 13,000 discharges from hospitals for more than 9,000 people. Hertfordshire residents go to 11 different hospitals inside and outside the county boundaries. In 2017-18 Hertfordshire were set challenging targets to reduce Delayed Transfers of Care from Hospital. Since April 2017 Hertfordshire have reduced social care delays by 134% and are currently the 19<sup>th</sup> (out of 152) most improved Council during this time.
- We launched the "Post Hospital Review Team" which supports people who have transferred from hospital and ensure they are able to access voluntary and statutory community based services. The success of this programme can be seen in the improved flow of patients from Watford Hospital and the other hospital bases. Over the course of the last year Watford Hospital has seen at least a 10% increase in discharge activity.
- The Money Advice Unit (MAU) dealt with almost 4,000 cases and raised £16m in additional benefits for vulnerable Hertfordshire residents – carers, mental health service-users, ADS clients, parents of disabled children and people in crisis. This is the highest ever-total raised by the MAU in a single year.
- 90.5% of schools rated as good or outstanding in their most recent Ofsted inspection and GCSE results in summer 2017 being in the top 15% nationally. However the challenge remains to reduce the attainment gap for disadvantaged pupils in the county
- There has been a reduction in the number of referrals to children's social care, from 238.2 to 224 per year, as more families are supported through early help from Families First.. This is one of the lowest rates in the country and continues to reflect appropriate use of early intervention through Families First preventing cases escalating to statutory services. Repeat referrals into social care have also reduced from 14.3% to 13.8%
- The number of children subject to a Child protection plan at end 2017/18 is 19.6 per 10,000 under 18 population. The best comparable neighbour, West Sussex, has a rate of 31.9.
- The 'reducing the number of children looked after' strategy has seen the number of children in care reduce from 1,009 in March 2016 to 815 in March 2018.
- 90% of two year olds eligible for free early education had either taken up their entitlement or accessed a children's centre, up from 85.6% last year.
- Children's Services were the winners of the overall Guardian Public service awards for Family Safeguarding's new approach to child protection. The project outcomes have shown a significant reduction in expenditure for the child protection service, reduced police domestic abuse call outs

## Narrative Report

by 66%, A&E visits by 53% and reduced the number of children on child protection plans by 50%. The total number of care cases in court has also reduced by 37%.

- The #JustTalk campaign to encourage teenage boys to talk about their mental health launched in January 2018. 250,500 people were reached via Facebook, Snapchat and Instagram, 90% of whom were teenage boys.
- The Household Waste Recycling Centre network continues to be a very well used county-wide service and achieved recycling rates in excess of 65%.
- Our roads are some of the busiest in the country and a long hard winter meant not only did we have nearly double the average salting runs but damage to road surfaces increased, leading to more interventions and repairs.
- Response to publicly reported street lighting faults on non-A, B and C roads still remains above target since the beginning of 17/18, scoring 100% since September 2017.

Spending plans are aligned with these corporate priorities. During 2017/18 the council has invested in buildings and other assets to support these objectives, including:

- School places – £23.2m has been spent on school expansion schemes to accommodate the growing school population. Over 19,000 additional primary and secondary school places have been created since 2010.
- Investing in our roads network – we have spent £55.6m on long term capital maintenance works to ensure our roads remain at agreed standards.

We have also invested through day to day spending in schemes that will generate benefits in future years: both spend that will help us to operate more efficiently, such as technology to support our staff adopt more mobile and flexible working patterns and reduce the time and money spent travelling; and intervening early to prevent complex needs developing. These interventions include:

- The Family Safeguarding programme, which uses a multi-disciplinary approach to focus on helping families to change the behaviours that place children at risk, so fewer children are taken into care and can live safely in their families. The Council is leading the way nationally in terms of how the child protection system is transformed, and is working with four other authorities to help them implement family safeguarding in their areas.
- The new county wide Community Navigators scheme, which helps safely discharge people from hospital, funded from Improved Better Care Fund grant. It also provides training schemes to skill up care staff to assist in prevention of admission to hospital; additional social work and OT staff in hospitals to ensure discharge on a seven day basis; and intensive work to reduce Delayed Transfers of Care hospitals.
- Adult Care Services also work as part of the NHS Vanguard Care Home programme with Care Homes which aimed to
  - Develop skilled staff that can look after residents with complex needs with more confidence, improving wellbeing and quality of life
  - Create multi-disciplinary teams to enable the delivery of enhanced care to residents including medicines management, Frailty services and enhanced primary care
  - Have a more responsive approach in order to get the right professionals to assist patients to prevent unnecessary admissions and A&E presentations

## Narrative Report

- Improve the use of technology so that clinicians can securely access records in the residents care home and monitor interventions across the health and social care system.

The learning from this is now being reflected in the NHS Sustainability and Transformation Plan process.

### Staffing

At March 2018, Hertfordshire County Council employed 8,003 staff (6,193 whole time equivalent (WTE), compared with 8,074 at March 2017 (6,190 WTE). A further 21,438 (11,661 WTE) were employed in schools in March 2018, compared to 23,114 (12,449 WTE) in March 2017. Average voluntary turnover (resignations, early retirement, voluntary redundancy) for 2017/18 was 12.5% (2016/17 13.1%). Employment levels nationally remain high at 75%, and in Hertfordshire this figure is higher at 79% making the employment market more competitive. The increased competition for workers is affecting attraction and retention and to respond to this the Council has targeted recruitment and retention strategies in place for shortage skills and hard to fill posts to help us deliver services to our citizens now and in the future.

The Council is committed to supporting apprentices of all ages through the Apprenticeship Levy, with this in mind the Hertfordshire Apprenticeship Alliance was formed in order to bring the public bodies, services and training providers of Hertfordshire together to enable our vision of the 'County of Opportunity' and offer wider experience and movement between public sector organisations to maximise the levy for the county. Since 2012, 279 apprentices have been recruited to a wide variety of areas including Business Admin, IT, Engineering, Social Care, Finance and Project Management. Since the introduction of the levy in April 2017, 27 apprentices have been recruited to Adult Care Work, Business Administration, Finance and Project Management with a further 74 existing employees enrolled onto an apprenticeship qualification as part of their on-going professional development which also contributes to the higher retention rate of staff.

The Council is committed to achieving diversity and equality of opportunity both as a large employer and as a provider of services. It demonstrates its commitment to tackling inequality and promoting diversity in all its activities and in line with the Public Sector Equality Duty publishes evidence of the impact of policies and practices on people with protected characteristics, as well as the objectives that the Council has set to support this work.

### Governance and Risk

The Council's elected members ('Full Council') set its strategic direction and policies, and the allocation of resources to deliver these. Decisions within this are taken by Cabinet (elected members representing each of the Council's service portfolios) following consideration by Cabinet Panels. Oversight is provided by the Overview and Scrutiny Committee and the Audit Committee). Council staff are then responsible for implementing these decisions, within agreed delegations.

The Council's Constitution, including its Financial Regulations, are reviewed regularly to ensure they remain effective. There have been no significant changes to governance arrangements during 2017/18.

The Annual Governance Statement (included in the accounts) sets out these arrangements and reviews their effectiveness, highlighting specific areas of risk and how these are being addressed. They include:

- Ongoing financial risks in relation to demand for services, particularly in the area of adult social care; significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement; proposed changes to business rates retention; and the impact of the Fair Funding review on the distribution of resources. Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £28m by 2021/22. They will also monitor the delivery of current savings

## Narrative Report

proposals, to support decision making for future years' Integrated Plans. In addition, Finance continues to monitor specific developments and make representations on behalf of the council.

- Recruitment of staff in key operational areas; in particular: Legal Services; Property; Environment (in particular engineers and planning staff); Children's Services and Adult Social Care continue to be a priority. For the latter, workforce and associated cost pressures including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc. The Council continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages. Work has already begun around a recruitment campaign for social workers and occupational therapists and proposals around market forces payments.
- The Highways service needs to contribute to the Council's new approach to growth. The Service will develop relationships with District Councils so as to establish a new approach with regard to developing and implementing their Local Plans; and will review current internal processes to ensure the Service plays a key role in the governance and development of the Council's major development sites.
- In August 2017 the Hertfordshire Police and Crime Commissioner (PCC) submitted a 'local business case' to the Home Office proposing to take over the governance of the Hertfordshire Fire & Rescue Service (HFRS) from the County Council. The decision making timescale and the outcome of this proposal remains unclear. The Council will need to consider the timing of work needed to refresh HFRS's Integrated Risk Management Plan in the light of this ongoing uncertainty.
- The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme. During 2017/18, the Mayor of London reversed Transport for London's (TfL) previous position accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70m, TfL would not agree to cover any ongoing cost risk. As a result there is an impasse. Should this lead to the scheme not progressing, funding partners may seek all funding to be returned. Furthermore, investigations into alternative uses of the corridor are being explored. The accounts have been prepared in line with the guidance reflecting the latest information on the scheme. Further details are included within Note 42.
- The requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited and the associated joint property development arrangements. The Council is developing a protocol to ensure that related disposals and transactions are, and can be seen to be, dealt with appropriately. Where required there will be a continuation of training on how to approach potential conflicts of interest issues for those County Council officers who act as directors of companies.
- The potential creation of new delivery models, for example for Library Services to be transferred to a Mutual: for these, a full business plan and transition plan, including governance model, financial modelling; and risk and control implications will be developed.

The Council maintains a Corporate Risk Register, reported regularly to the Resources and Performance Cabinet Panel as part of the Quarterly Performance monitor. Mitigating actions are in place for all identified risks. The Register can be found at <https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/>

In addition, the Audit Committee is responsible for ensuring the effectiveness of risk management arrangements, receiving regular reports concerning the operation and effectiveness of the Corporate Risk Process and updates on other risk management activity, along with focussed review of specific areas of risk from the Risk Register.

# Narrative Report

## Guide to the Statement of Accounts

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. The format and content of the financial statements is prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards. Accounting policies are applied in accordance with these standards; there have been no material changes during 2017/18.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement (CIES)** records all of the Council's income and expenditure for the year, including that for Hertfordshire's maintained schools. The top half of the statement provides an analysis by service area, on the same basis that these services are organised and managed by the Council during the year. The bottom half of the statement deals with county wide transactions and funding; the section 'Other Comprehensive Income and Expenditure' records accounting gains and losses that have yet to be realised (for example, the change in value of an asset which is only realised when the asset is sold).

The statement shows the true cost of providing services in accordance with required accounting practices (including depreciation costs, the impact of changes in asset values, and the value of future years' pension benefits earned during the year). As such, the net cost of services shown in the accounts can vary significantly from the actual costs shown in the revenue monitor, chargeable to taxpayers.

The **Expenditure & Funding Analysis Statement** also shows spend as managed by each of the Council's directorates, and provides a reconciliation between the way services are budgeted and funded from resources (government grants, council tax and business rates), and their presentation in the CIES in accordance with accounting standards and statutory requirements.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which are cash backed can be invested in capital projects or service improvements; and "unusable", the majority of which are not cash backed (for example, valuation reserves that represent the change in book value of assets and liabilities) and which are set aside for specific purposes.

The **Balance Sheet** is a "snapshot" of the Council's financial position at the year end. The top half of the balance sheet sets out the council's assets and liabilities, including provision for known liabilities from past events that can be reliably estimated. The lower half of the balance sheet shows the Council's reserves: Usable reserves (£343.3m) are those available to fund future spend; unusable reserves (£1,386.7m) result from accounting adjustments required by statute or accounting standards and cannot be spent.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment (including capital spend and disposals), or financing activities (such as repayment of borrowing and other long term liabilities).

These Core Statements are supplemented by disclosure notes that give further explanation of the figures in the Core Statements.

The Statement of Accounts also includes:

- Statements setting out the respective responsibilities of the Council and its Chief Financial Officer, and of the Audit Committee;
- the Annual Governance Statement, which sets out the governance structures of the Council and its key internal controls;

## Narrative Report

- the Local Government Pension Fund Accounts for Hertfordshire, and the Firefighters' Pension Fund accounts.

A Glossary of key terms can be found at the end of this publication.

### Investments in Other Companies

The Council also has an interest in wholly owned subsidiary companies (Herts Catering Ltd, Surecare and Herts Living Ltd) and is a 19% shareholder in Herts for Learning Ltd, These companies have been set up to provide services on behalf of the Council, where an arm's length structure gives the opportunity to deliver these in a commercial and cost effective way. Further details of these investments can be found in note 48 to the accounts. While the companies provide significant services in Hertfordshire, their financial performance has minimal impact on the Council's overall finances and so they are not included in these accounts.

*NOTE: values throughout these accounts are presented rounded to the nearest thousand. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.*

# **Statement of Responsibilities**

# Statement of Responsibilities

This statement sets out the respective responsibilities of the Council and the Chief Finance Officer for the accounts.

## The County Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Resources;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the Statement of Accounts before 31 July 2018.

I confirm that the final accounts were approved by the Audit Committee.

Signed on behalf of Hertfordshire County Council

**Councillor Frances Button**  
**Chairman**  
**Audit Committee**

# Statement of Responsibilities

## The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The Chief Finance Officer has also:

- Kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Chief Finance Officer's Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the Council, the Hertfordshire County Council Pension Fund and the Firefighters' Pension Fund as at 31 March 2018 and the income and expenditure for the year then ended.

**Owen Mapley**  
**Director of Resources**

# **Annual Governance Statement**

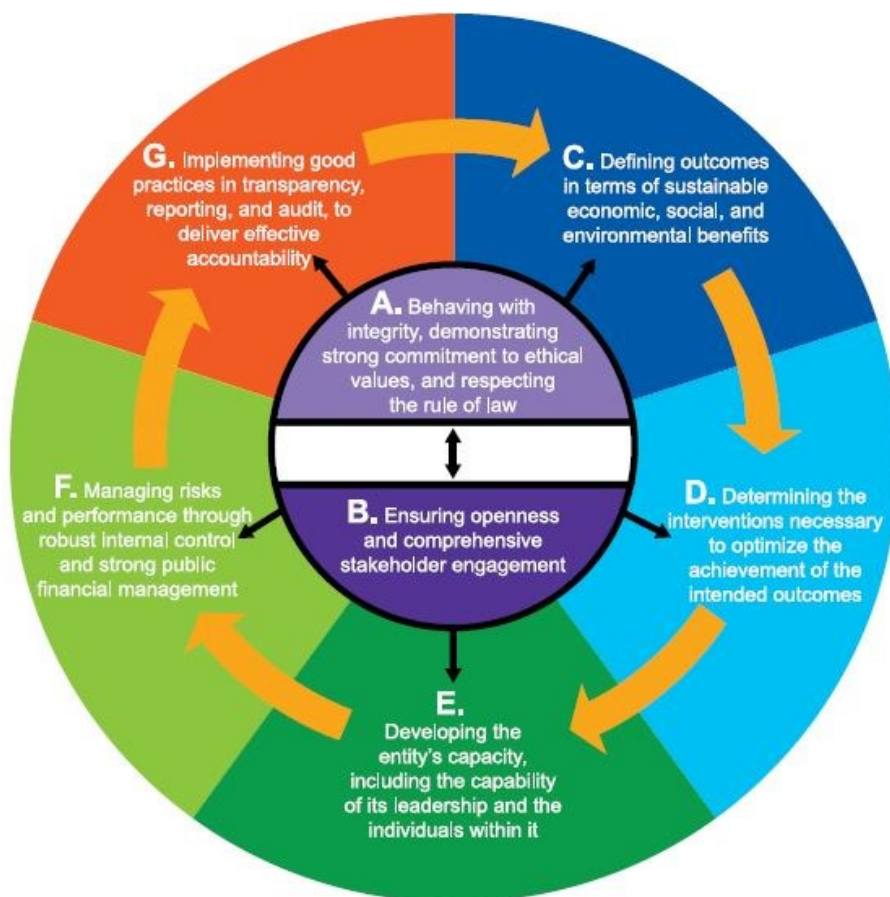
# Annual Governance Statement

## 1. Background

- 1.1. The Accounts and Audit Regulations (2015) require that Hertfordshire County Council prepare an annual governance statement to accompany its Annual Financial Report.
- 1.2. The term 'governance' generally refers to the arrangements put in place to ensure that intended outcomes are defined and achieved.

## 2. The Code of Corporate Governance

- 2.1. Hertfordshire County Council's Code of Corporate Governance is available on the Council's website ([www.Hertfordshire.gov.uk](http://www.Hertfordshire.gov.uk)).
- 2.2. The code sets out how the Council complies with the governance principles set out in 'Delivering Good Governance in Local Government (2016)' a document compiled as part of a joint initiative between the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 2.3. The principles and the way they integrate are set out in the international framework infographic below:



## 3. The Governance Framework

- 3.1. Hertfordshire County Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

# Annual Governance Statement

- 3.2. In doing this, the Council is responsible for putting in place proper arrangements for the governance of its affairs as well as ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for; and used economically, efficiently and effectively.
- 3.3. The Hertfordshire County Council Governance Framework comprises both: the systems and processes; and the culture and values through which it directs and controls its operations as well as the mechanisms through which it engages with and leads the community.
- 3.4. This framework is designed to enable the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

## 4. Key Elements of The Governance Framework

- 4.1. The Governance Framework summarised in this Statement has been in place at the council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts. Some of the key elements of the Council's governance framework are described below.
- 4.2. The Council's **Constitution** sets out the rules under which the organisation conducts its business. The Constitution aims to enable the Council to provide clear leadership to the community, in partnership with the public, businesses and other organisations; support the active involvement of members of the public in decision-making; help Councillors represent their constituents; enable decisions to be taken efficiently and effectively; enable decision-makers to be held to account; and ensure that decision-makers are identifiable and that reasons are given for decisions. All the annexes to the Constitution were reviewed and where necessary updated during the year.
- 4.3. The Council's most recent **Corporate Plan** covers the period 2017-2021 and sets out a vision for Hertfordshire to remain a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. It outlines four cross-cutting themes that include key priorities for the County.

The four themes are:

- Opportunity to Thrive
- Opportunity to Prosper
- Opportunity to be Healthy and Safe
- Opportunity to Take Part.

- 4.4. The **Integrated Plan for 2017/18 – 2019/20** sets out the key outcomes toward which the Council is working. The Integrated Plan provides the associated financial and human resource plans together with information on how the Council achieves value for money in the provision of services, and the treasury management strategy. The Integrated Plan is developed through a robust review and challenge process involving both Cabinet Panel and Scrutiny.
- 4.5. The Council utilises a system of all-party **Cabinet Panels** to consider policy development for each service area.
- 4.6. The Council publishes an **Annual Report** which summarises significant developments and achievements for the period. The report sets out how the Council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year. The document also reinforces Hertfordshire County Council's commitment to working with communities and providing services through methods of delivery that demonstrate its values and behaviours.
- 4.7. The Council has well-established **Scrutiny Arrangements** which act to hold the Executive to account by scrutinising decisions made by, or on behalf of the Council or Cabinet and any

# Annual Governance Statement

operational or policy aspect of the Council's business. Additionally, the Council's Health Scrutiny Committee considers strategic countywide health matters. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the Council's control. Full details of the topics under scrutiny can be accessed on the Council's website. Progress on the implementation of agreed scrutiny recommendations is monitored regularly.

- 4.8. Hertfordshire County Council works with partners through **Hertfordshire Forward**, the countywide strategic partnership. **The Hertfordshire Forward Strategy Group** draws the County's key partners and partnerships together to ensure that everyone is moving collectively in the same direction in the best interests of Hertfordshire. Membership of the Group comprises: the Leader of Hertfordshire County Council; the Hertfordshire Police and Crime Commissioner; the Chairs of the County's Health and Wellbeing Board and Local Enterprise Partnership; and the Chairman of the Hertfordshire Leaders Group (the grouping of all local authority leaders in the County).
- 4.9. An '**Ambition for Hertfordshire**' has been developed by the Hertfordshire Forward Strategy Group and the Hertfordshire Assembly, which draws together a wider range of partners to debate, shape and develop county-wide plans and strategies, is convened twice a year. An annual conference is also held each year to bring together Hertfordshire partners from across all sectors to discuss key issues facing the county. The theme of this conference in 2017 was prevention and working together to influence behaviour and help reduce demands on public services.
- 4.10. The Council has **Integrated Strategic and Service Level Performance Reporting** processes, which facilitate continuous improvement and identify and support early identification and rectification of any service delivery issues.
- 4.11. These arrangements are supported by the council's **Performance Management and Development Scheme** through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is underpinned by the **Staff Development Charter** which provides a framework for assessing and meeting the learning and development needs of officers. The Council has adopted a set of **Values and Behaviours** to reinforce what is expected of employees and managers.
- 4.12. There is an on-going **Councillor Development Programme** to support them in all their roles, with dedicated learning and development support and a system of deputy Cabinet members that facilitates succession planning. Work to support Councillors in their local work is part of the Council's approach to localism; this has included development of an IT portal to provide Councillors with ready access to a wide range of information about their local communities and Hertfordshire more widely.
- 4.13. The Council's systems of **Internal Control** are a significant part of the Governance Framework and are designed to manage risk to a reasonable level however they cannot eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control is based around an on-going process designed to:
- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
  - Evaluate the likelihood of those risks being realised and the impact should they be realised; and
  - Manage them efficiently, effectively and economically.
- 4.14. The Council has a well-developed **Risk Management Strategy** and **Embedded Risk Monitoring Processes**, which operate at the highest levels of the organisation, and are overseen by the Council's Audit Committee. The risks associated with meeting budget targets are also considered as part of the integrated planning process, and then monitored in quarterly reports to Cabinet.

## Annual Governance Statement

- 4.15. The Council has designated the Director of Resources as **Senior Information Risk Owner** and the Information Governance Unit and the IT Security Team provide advice and guidance on this area.
- 4.16. The Council has an **Anti-Fraud and Corruption Strategy** setting out its commitment to prevent and detect fraud and corruption.
- 4.17. The Council has a **Whistleblowing Policy** which clearly sets out arrangements in place for reporting and investigating any concern relating to a deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.
- 4.18. The Council has continued to maintain **Equality and Diversity** at the forefront of its service delivery and employment practices. The Council annually publishes evidence of its progress against the objectives contained in its **Equality Strategy** to demonstrate to the public of Hertfordshire how it intends to continue to meet the needs of all of Hertfordshire's communities. Equality impact assessments assess the impact of policies and proposals upon council employees and service users, and a cumulative impact assessment is carried out as part of the integrated planning process.
- 4.19. The Council's **Website** includes: facilities that allow members of the public to submit complaints relating to the various directorates; mechanisms for reporting suspected fraud and corruption (anonymously if required); and, access to information on current consultations, petitions etc.

### 5. Review of Effectiveness

- 5.1. Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of local governance arrangements including the system of internal control. The review of effectiveness is informed by: the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment; the Head of Assurance's Annual Report; and also by comments made by External Audit and other review agencies and inspectorates.
- 5.2. The preparation and publication of the **Annual Governance Statement** in accordance with 'Delivering Good Governance in Local Government Framework (2016)' fulfils the statutory requirement for the annual review of the effectiveness of systems of internal control and also meets the requirement for 'preparation in accordance with proper practice'.
- 5.3. The Executive, on behalf of the Council, charges the **Audit Committee** with keeping the effectiveness of the Council's systems for internal control under review. At its quarterly meetings the Audit Committee receives and considers reports on the Council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the Council. The Audit Committee approves the **Internal Audit Plan** of work and receives regular updates on progress against the plan with summaries of both assurance opinions and key matters raised in individual reviews. The Audit Committee considers the overall annual opinion on internal control provided by the Shared Internal Audit Service along with the opinions on the Council's accounts provided by **External Audit**.
- 5.4. The **Head of Assurance's Annual Report** on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement.
- 5.5. The **Head of Assurance Opinion** in respect of 2017/18 is one of Substantial Assurance (defined as '*whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk*') for financial systems; and Moderate Assurance (defined as '*whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk*') for non-financial systems, giving confidence in the effectiveness of internal control

# Annual Governance Statement

arrangements of the Council. The report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2017/18, and is informed by the comments of External Audit and other inspectors where appropriate.

- 5.6. The Council ensures corporate ownership of the Annual Governance Statement through requiring members of the Joint Leadership Team to provide a **Service Assurance Statement** covering the controls in place in their service areas. The statement provides assurance that they have reviewed arrangements for meeting their responsibilities in relation to having:
- Plans that set out how corporate objectives and other legal and regulatory requirements are to be achieved;
  - Adequate arrangements for monitoring performance;
  - Adequate resource in both number and skills to deliver service objectives;
  - Appropriate risk management arrangements in place;
  - Arrangements for ensuring that agreed recommendations resulting from internal audit, external audit or other inspectorate work are implemented;
  - Procedures that ensure timely responses to all types of query and complaint;
  - Processes that ensure compliance with relevant legislation;
  - Partnership arrangements that are well founded, clearly defined and adequate;
  - Mechanisms for ensuring staff are aware of the HCC's Values and Behaviours; its Code of Conduct and related policies e.g. whistleblowing, equalities etc.; and
  - Business continuity plans that are communicated to staff as necessary.
- 5.7. A draft version of the Annual Governance Statement is considered at Strategic Management Board and scrutinised by the Audit Committee at its meeting in May prior to signing by the Chief Executive and Leader of the Council.

## 6. Activities Involving Group Governance

- 6.1. The Council has varying stakes in a variety of trading entities and it is important that the Council be transparent with regard to its influence on decision making. Where required there is Internal Audit activity to ensure that the associated control environments are operating appropriately. In respect of financial reporting; the Council has the option to prepare group accounts where it is felt that this is required.
- 6.2. Some of these trading entities and the Council's stakes are listed below:
- Herts Living Limited - this company is wholly owned by the Council with HCC officer representation on the company's board of directors. The County Council has appointed a private sector partner to enter a joint venture partnership, with Herts Living Limited, under the name Chalkdene Developments LLP which aims to build new homes as well as community and ancillary buildings in the County over the next 15 years. Governance arrangements are supported by a delegations matrix that sets out if any decisions need to be referred back to HCC Members or the shareholder representatives.
  - Herts for Learning Limited - is a schools company of which the Council has a 20% stake and HCC officer representation on its board of directors; it operates to provide support services to education providers.
  - Hertfordshire Catering Limited - this company is wholly owned by the Council with HCC officer representation on its board of directors; the Company provides catering services to Colleges, Academies and Schools.
  - Surecare Supplies Limited - this company is wholly owned by the Council and has both HCC officer and Member representation on its board of directors. It provides care supplies to non-profit making groups such as charities, the NHS, local authorities, childminder groups and care homes.
- 6.3. In respect of the trading entities listed above; the Council considered that none of the related activities were significant enough, either qualitatively or quantitatively to warrant the preparation of group accounts. This approach may change in subsequent years especially

## Annual Governance Statement

giving the development of Herts Living Limited; however for 17/18 its activities were concentrated on its initial formation with all material transactions and activity to date having occurred after the balance sheet date in 18-19.

- 6.4. The Hertfordshire Local Enterprise Partnership (LEP) brings together representatives from local government, education and the business community. In Hertfordshire, the LEP operates as a voluntary partnership. The Council has a dual role, as the 'Accountable Body' in regards to oversight of public money and also as a key partner directly involved in decision-making.
- 6.5. To ensure the effective management of funding from central government budgets the LEP is required to adhere to the Government's National Assurance Framework which covers:
- Governance and Decision Making
  - Transparent decision making; including a Conflict of Interests policy
  - Accountable decision making
  - Ensuring value for money and effective delivery

The LEP's adherence to this framework has been the subject of Internal Audit coverage in 2017/18.

# Annual Governance Statement

## 7. Update on Significant Governance Issues identified in the 2016/17 Annual Governance Statement

The following table provides an update on the significant governance issues reported in the 2016/17 Statement; as some of the issues remain current this table should be considered alongside the items set out in Section 8 (below)

Item	Directorate	2016/17 Issue	2017/18 Update
7.1	<b>Environment</b>	The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme which is potentially subject to increased funding requirements. The Council will continue to review its financial position in respect of the scheme as it progresses.	The Mayor of London subsequently issued a new Mayoral Direction. This had two key impacts. Firstly it required others to find a further £70 m to add to the agreed funding package of £284.4 m. Secondly, it reversed Transport for London's (TfL) previous position about accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70 m, TfL would not agree to cover any ongoing cost risk. As a result there is an impasse. Should this lead to the scheme not progressing, funding partners will seek all funding to be returned. Furthermore, investigations in to alternative uses of the corridor are being investigated.
7.2	<b>Adult Care Services</b>	Governance arrangements between the County Council and the NHS Clinical Commissioning Groups (CCGs) particularly in relation to the Section 75 agreement and the Better Care Fund are under review. The Council will continue with its commitment to these arrangements and ensure clarity and transparency around how these resources are used and their impact upon local performance and delivery.	A renewed Section 75 Agreement was agreed between the County Council and CCG partners, a two-year Better Care Fund Plan received national assurance from NHS England (covering 2017-19) and strengthened reporting arrangements on Better Care Fund were put in place during this year. In addition, Herts Valleys CCG took a report to their Governing Body agreeing 'Care Act Monies' due to HCC from 2019/20 onwards in line with national guidance.
7.3	<b>Community Protection</b>	At the time of writing, the Council is aware that the Hertfordshire Police and Crime Commissioner intends to commence a consultation relating to governance changes in respect of responsibility for the County's Fire and Rescue Service. Were such a move agreed, it would require a strategy for the calculation and disaggregation of the related County assets and liabilities.	The Police and Crime Commissioner for Hertfordshire (PCC) has submitted a business case proposing that he take over governance of the Herts Fire and Rescue Service (HFRS). HCC officers have shared all necessary information and sought to ensure that the business case accurately reflects the situation for HFRS and HCC. At the time of writing this business case has undergone independent assessment by CIPFA and the PCC has been requested to provide further information to support their business case by 31 May 2018. HCC officers continue to engage with the PCC and are undertaking planning for all potential outcomes.

## Annual Governance Statement

Item	Directorate	2016/17 Issue	2017/18 Update
7.4	<b>Children's Services</b>	Changes in education funding and potential legislative and regulatory reform means that the Council will face increasing complexities in meeting its statutory duties unless and until these are changed. This includes ensuring the provision of adequate school places in forthcoming years, together with existing responsibilities for maintained schools where provision of funding depends on partners support expressed through decisions of the Schools Forum.	The underlying challenges identified in 2016/17 remain the same. However, we have secured agreement from Maintained Schools to de-delegate funding to the Council to enable it to discharge school improvement and other duties towards maintained schools. This approval is for 2018/19, with an in-principle commitment also to 2019/20. Expansion plans for the years to 2020 have now been agreed.
7.5	<b>Resources - Finance</b>	Service departments continue to work with Members and corporate finance to support the development of savings options to close the gap in resources, estimated to be £40m by 2019/20, in future years. This will include work to identify the impact of future funding changes which will, for 2017/18 and beyond, include the proposals to devolve business rates to local authorities. Finance will also monitor the success or otherwise of current proposals to support senior management and Member decision making	<p>The Council has placed particular emphasis on medium term financial sustainability during this years Integrated Planning Process. This has included:</p> <ul style="list-style-type: none"> <li>• Extending the plan from 3 to 4 years</li> <li>• Working with departments and Members to develop savings plans that help tackle the medium term, not just the following year.</li> </ul> <p>The success of this approach can be seen in the following:</p> <ul style="list-style-type: none"> <li>• A balanced budget for 2018/19</li> <li>• The gap for 2019/20 reduced from £40m to £7m</li> <li>• A budget gap in 4 years of £28m.</li> </ul> <p>The financial position does however remain extremely challenging for Councils, as indicated by the recent National Audit Office report and issues at Northamptonshire County Council. So despite the progress, it is essential this remains an area of focus of the Council.</p>
7.6	<b>Resources - HR</b>	Recruitment of staff in key operational areas; in particular, Legal Services, Property, Children's Services and the Fire and Rescue Service, remains a concern. In addition, shortages in the local care workforce in Hertfordshire is impacting the Council's ability to meet some statutory adult social care needs e.g. deprivation of liberty safeguards. The Council continues to look at ways to address vacancies in these harder to fill areas.	Recruitment of staff in key operational areas; in particular: Legal Services; Property; Environment (in particular engineers and planning staff); Children's Services and Adult Social Care continue to be a priority. The Council continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages.

# Annual Governance Statement

## 8. Significant Governance Issues 2017/18

In addition to the updates on the matters referred to in Section 7 (above) the following issues have been raised as part of the 2017/18 review.

Item	Directorate	Issue	Action
8.1	<b>Environment and Infrastructure</b>	The Highways service needs to contribute to the Council's new approach to growth.	<p>The Service will develop relationships with District Councils so as to establish a new approach with regard to developing and implementing their Local Plans.</p> <p>Review current internal processes to ensure the Service plays a key role in the governance and development of the Council's major development sites.</p>
8.2	<b>Community Protection</b>	In August 2017 the Hertfordshire Police and Crime Commissioner (PCC) submitted a 'local business case' to the Home Office proposing to take over the governance of the Hertfordshire Fire & Rescue Service (HFRS) from the County Council.	The decision making timescale and the outcome of this proposal remains unclear. The Council will need to consider the timing of work needed to refresh HFRS's Integrated Risk Management Plan in the light of this ongoing uncertainty.
8.3	<b>Adult Care Services</b>	Workforce and associated cost pressures, including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc.	Work has already begun around a recruitment campaign for social workers and occupational therapists and proposals around market forces payments.
8.4	<b>Resources - Libraries</b>	Uncertainty around the future delivery model for Library Services with potential for it to be spun out into a Mutual.	A full business plan and transition plan, including: governance model; financial modelling; and risk and control implications are in development.
8.5	<b>Resources - Finance</b>	<p>Ongoing financial risks in relation to:</p> <ul style="list-style-type: none"> <li>• Demand for services, particularly in the area of adult social care;</li> <li>• Significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement;</li> <li>• Proposed changes to business rates retention; and</li> <li>• The impact of the Fair Funding review on the distribution of</li> </ul>	<p>Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £28m by 2021/22. They will also monitor the delivery of current savings proposals, to support decision making for future years' Integrated Plans.</p> <p>In addition, Finance continues to monitor specific developments and make representations on behalf of the</p>

## Annual Governance Statement

Item	Directorate	Issue	Action
		resources.	council.
8.6	<b>Resources - Legal</b>	Requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited and the associated joint property development arrangements.	Development of a protocol to ensure that related disposals and transactions are, and can be seen to be, dealt with appropriately. Where required there will be a continuation of training on how to approach potential conflicts of interest issues for those County Council officers who act as directors of companies.

### 9. Specific Areas for Improvement and Development 2017/18

The review of effectiveness has identified a number of governance and internal control improvement and development activities planned for the year ahead. These are in addition to the on-going commitment that the Council makes to ensuring actions agreed in response to recommendations made by external and internal assurance providers are implemented. Actions will be progressed by managers as necessary. The more significant of the proposed activities are:

Item	Directorate	Area for Improvement & Development	Proposed Action
9.1	<b>Adult Care Services</b>	Mitigating the risks to the County Council should income be insufficient to cover the costs of the Hertfordshire Home Improvement Agency Shared Service.	A review of the business case and partnership agreement upon which the County Council agreed to host the service.
9.2	<b>Adult Care Services</b>	Implementation of medium and long-term budget, service and capital plans to take into account the challenging financial position and the need to manage a care market on the outskirts of London.	Use of Investment to Transform monies to build capacity to respond quickly to these challenges and commission new models of care; change the way ACS works and use the latest technology to support people to be independent.
9.3	<b>Adult Care Services</b>	Statutory responsibilities to safeguard people from abuse are a primary function of the local authority. Safeguarding concerns reported will exceed 8,000 for 2017/18.	Steps have been taken to adjust the staffing establishment in the Adults with Disabilities Teams (within overall budget) and change procedures within Older People's Teams to manage this huge demand for professional intervention.
9.4	<b>Adult Care Services</b>	The current funding arrangements for the NHS CCGs ends in 2020 and will impact the way health and social care monies flow in the system in future years. Whilst a one-off government grant will offset this, the high level medium term financial position remains fluid.	HCC is working well with colleagues from the CCGs to deliver a range of transformative integrated programmes within the realms of the Better Care Fund.

## Annual Governance Statement

Item	Directorate	Area for Improvement & Development	Proposed Action
9.5	<b>Public Health</b>	Actions in response to continuing reduction in public health funding and heightened scrutiny of public health expenditure by Public Health England.	Re-prioritisation of Public Health spend to make sure it continues to achieve its value for money obligations, provide key services and ensure it maintains, as it has done to date, high standards of probity and accountability for the ring-fenced grant.
9.6	<b>Resources Finance</b>	- Addressing the financial impact on the Council of schools experiencing financial difficulty due to national funding pressures exacerbated by rising cost prices.	Plans are in place to identify these schools early, with mitigating actions introduced and regular updates provided to senior officers and Members.
9.7	<b>Resources Finance</b>	- Actions to meet the growing regulatory demands around Pensions as well as increasing numbers of members and employers and demands from the national asset pool that Hertfordshire belongs to.	Increased resourcing with appropriate technical skills.
9.8	<b>Community Protection</b>	To address the impact on the Service's training regime of the successful prevention strategies in place within the Directorate that mean that less experience is gained in operational scenarios.	Changes in the related training programmes supported by a significant capital investment project which now forms part of the current IPP for 18/19 and proposes replacement of the current Service HQ along with significant redevelopment of the Longfield Training and Development Centre
9.9	<b>Community Protection</b>	The recruitment and retention of Retained Duty System Firefighters.	This is the subject of a specific project which is making good progress
9.10	<b>Children's Services</b>	Addressing the demographic pressures impacting budgets for the following activities: <ul style="list-style-type: none"> <li>• Children Looked After Placements</li> <li>• Unaccompanied Asylum Seeking Children</li> <li>• SEN transport</li> <li>• No Recourse to Public Funds.</li> </ul>	There are monitoring and projection systems in place to manage these pressures.

## Annual Governance Statement

Item	Directorate	Area for Improvement & Development	Proposed Action
9.11	<b>Children's Services</b>	<p>Addressing the Council's extended statutory duties in relation to amendments to:</p> <ul style="list-style-type: none"> <li>• The Children &amp; Families Act relating to Special Education Needs and Disabilities; and</li> <li>• The Children &amp; Social Work Act 2017 that extend both: the services for care leavers up to 25 years of age; and the Virtual School remit to adopted children and those under Special Guardianship Orders and accreditation for social workers.</li> </ul>	<p>Programmes are being developed to ensure the Council addresses extended duties however additional time limited funding from central government is unlikely to fund extra resources required for SEND and care leavers' duties.</p>
9.12	<b>Environment and Infrastructure</b>	<p>To address the corporate implications of the new Growth and Infrastructure Team being established within the Environment and Infrastructure Department.</p>	<p>A review to establish appropriate internal controls / decision making processes during the summer 2018.</p>

## 10. Statement of the Leader of the Council and the Chief Executive

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by senior management and the Audit Committee. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Hertfordshire County Council:

**David Williams – Leader of the Council**

-----

**May 2018**

**John Wood – Chief Executive**

-----

**May 2018**

# **Independent Auditor's Report**

# **Independent Auditor's Report to the Members of HCC**

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# **Independent Auditor's Report to the Members of HCC**

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# **Independent Auditor's Report to the Members of HCC**

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# **Independent Auditor's Report to the Members of HCC**

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# **Independent Auditor's Report to the Members of HCC**

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# **Expenditure and Funding Analysis**

# Expenditure and Funding Analysis

## Introduction

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rate payers how the funding available to the Council (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Net Expenditure Chargeable to the General Fund  £000s	2016/17 Adjustments between Funding and Adjustments for Capital Purposes  £000s	Net Expenditure in the Comprehensive Income and Expenditure Statement  £000s
Adult Care Services	320,501	5,613	326,114
Central Items	114	801	915
Children's Services	166,139	57,752	223,891
Community Protection	32,113	9,175	41,288
Environment	106,835	28,482	135,316
Public Health	(756)	752	(4)
Resources	79,480	8,642	88,122
<b>Net Cost of Services</b>	<b>704,427</b>	<b>111,215</b>	<b>815,642</b>
Other Income and Expenditure	(691,391)	84,409	(606,983)
<b>Surplus or Deficit</b>	<b>13,035</b>	<b>195,624</b>	<b>208,659</b>
<b>Opening General Fund</b>	<b>(32,112)</b>		
<b>Add (surplus)/deficit on General Fund</b>	<b>13,035</b>		
<b>Transfers to/(from) Earmarked Reserves</b>	<b>(12,731)</b>		
<b>Closing General Fund at 31st March</b>	<b>(31,809)</b>		

## Expenditure and Funding Analysis

	2017/18		
	Net Expenditure Chargeable to the General Fund £000s	Adjustments between Funding and Accounting Basis £000s	Net Expenditure in the Comprehensive Income and Expenditure Statement £000s
Adult Care Services	316,358	9,038	325,396
Central Items	1,642	720	2,362
Children's Services	154,313	33,815	188,128
Community Protection	35,780	10,011	45,791
Environment	103,276	28,790	132,066
Public Health	(691)	227	(464)
Resources	71,514	14,325	85,839
<b>Net Cost of Services</b>	<b>682,193</b>	<b>96,925</b>	<b>779,118</b>
Other Income and Expenditure	(720,200)	97,093	(623,107)
<b>Surplus or Deficit</b>	<b>(38,007)</b>	<b>194,018</b>	<b>156,011</b>
<b>Opening General Fund</b>	(31,809)		
<b>Add (surplus)/deficit on General Fund</b>	(38,007)		
<b>Transfers to/(from) Earmarked Reserves</b>	38,319		
<b>Closing General Fund at 31st March</b>	<b>(31,497)</b>		

A number of adjustments are required to the amounts chargeable to the General Fund, in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The major adjustments are explained in Note 28.

# **Presentation of Financial Statements – Hertfordshire County Council**

# Presentation of Financial Statements

## 1. Comprehensive Income & Expenditure Statement

This statement shows the accounting cost of providing services in the year in accordance with accepted accounting practices, rather than the amount to be funded from taxation. The position against actual income is shown in the Movement in Reserves Statement.

2016/17				2017/18			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	
£000s	£000s	£000s	Note	£000s	£000s	£000s	
410,058	(83,945)	326,114	Adult Care Services	415,066	(89,670)	325,396	
850	65	915	Central Items	2,298	64	2,362	
937,398	(713,506)	223,891	Children's Services	918,003	(729,875)	188,128	
46,633	(5,346)	41,288	Community Protection	48,938	(3,146)	45,791	
184,696	(49,380)	135,316	Environment	155,010	(22,944)	132,066	
50,324	(50,328)	(4)	Public Health	48,500	(48,964)	(464)	
103,024	(14,902)	88,122	Resources	105,111	(19,272)	85,839	
<b>1,732,984</b>	<b>(917,342)</b>	<b>815,642</b>	<b>Cost of Services - Total Continuing Operations</b>	<b>1,692,925</b>	<b>(913,807)</b>	<b>779,118</b>	
		207,917	Other Operating expenditure			195,197	9
		44,785	Financing and Investment Income & Expenditure			40,798	10
		(859,685)	Taxation and Non-Specific Grant Income			(859,101)	11
		<b>208,659</b>	<b>(Surplus) or Deficit on Provision of Services (A)</b>			<b>156,011</b>	
		(87,447)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment			(65,618)	24
		128,176	Remeasurements on the Net Defined Pensions Liability			(103,752)	24
		(998)	(Surplus) or Deficit on revaluation of available for sale financial assets*			(3,784)	24
		<b>39,731</b>	<b>Other Comprehensive Income &amp; Expenditure (B)</b>			<b>(173,154)</b>	
		<b>248,390</b>	<b>Total Comprehensive Income &amp; Expenditure (A+B)</b>			<b>(17,143)</b>	

\* May affect the Surplus or Deficit on Provision of Services in future years

# Presentation of Financial Statements

## 2. Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council as at the Balance Sheet date. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories; usable reserves, i.e. those reserves 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; and unusable reserves resulting from accounting adjustments and which the Council is not able to use to provide services.

31 March 2017				31 March 2018			
£000s	£000s		Note	£000s	£000s		
2,967,460		Property, Plant & Equipment	12	2,914,842			
33,038		Heritage Assets	13	32,555			
3,550		Intangible Assets	14	3,721			
31,836		Long Term Investments	43	34,974			
34,828		Long Term Debtors	18	25,831			
	<b>3,070,711</b>	<b>Long Term Assets</b>			<b>3,011,923</b>		
36,022		Short Term Investments	43	40,809			
33,897		Assets Held for Sale	20	11,606			
3,917		Inventories		4,187			
124,069		Short Term Debtors	18	123,733			
100,281		Cash and Cash Equivalents	19	123,964			
	<b>298,187</b>	<b>Current Assets</b>			<b>304,299</b>		
(32,909)		Short Term Borrowing	43	(2,848)			
(1,496)		Short Term Liabilities	43	(1,707)			
(153,192)		Short Term Creditors	21	(156,354)			
(16,419)		Provisions for Accumulated Absences	24	(13,787)			
(14,886)		Short Term Provisions	22	(15,177)			
	<b>(218,902)</b>	<b>Current Liabilities</b>			<b>(189,872)</b>		
(1,021)		Long Term Creditors	21	(1,244)			
(5,605)		Long Term Provisions	22	(3,566)			
(260,768)		Long Term Borrowing	43	(260,760)			
(1,066,299)		Liability relating to the defined benefit pension scheme	37	(1,030,918)			
(54,554)		Other Long Term Liabilities	43	(52,806)			
(48,901)		Capital Grants Receipts in Advance	38	(47,064)			
	<b>(1,437,147)</b>	<b>Long Term Liabilities</b>			<b>(1,396,359)</b>		
	<b>1,712,848</b>	<b>Net Assets</b>			<b>1,729,991</b>		
(254,268)		<b>Usable Reserves</b>	23	(343,299)			
(1,458,580)		<b>Unusable Reserves</b>	24	(1,386,692)			
	<b>(1,712,848)</b>	<b>Total Reserves</b>			<b>(1,729,991)</b>		

These financial statements replace the unaudited financial statements certified by the Chief Finance Officer on **31 May 2018**.

**Owen Mapley**  
Director of Resources

# Presentation of Financial Statements

## 3. 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 other reserves. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balances before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Note	General Fund Balance	Earmarked General Fund Reserves	Total General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2016 carried forward</b>		<b>(32,112)</b>	<b>(162,517)</b>	<b>(194,628)</b>	<b>(3,641)</b>	<b>(62,364)</b>	<b>(260,634)</b>	<b>(1,700,604)</b>	<b>(1,961,239)</b>
<u>Movement in reserves during 2016/17</u>									
Total Comprehensive Income and Expenditure		208,659	-	208,659	-	-	208,659	39,731	248,390
Adjustments between accounting basis & funding basis under regulations	7	(195,624)	-	(195,624)	3,141	(9,811)	(202,293)	202,293	-
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		<b>13,035</b>	<b>-</b>	<b>13,035</b>	<b>3,141</b>	<b>(9,811)</b>	<b>6,366</b>	<b>242,024</b>	<b>248,390</b>
Transfer to / from Earmarked Reserves	8	(12,732)	12,732	-	-	-	-	-	-
<b>(Increase) / Decrease in 2016/17</b>		<b>303</b>	<b>12,732</b>	<b>13,035</b>	<b>3,141</b>	<b>(9,811)</b>	<b>6,366</b>	<b>242,024</b>	<b>248,390</b>
<b>Balance at 31 March 2017 carried forward</b>		<b>(31,809)</b>	<b>(149,785)</b>	<b>(181,593)</b>	<b>(500)</b>	<b>(72,174)</b>	<b>(254,269)</b>	<b>(1,458,580)</b>	<b>(1,712,849)</b>
<u>Movement in reserves during 2017/18</u>									
Total Comprehensive Income and Expenditure		156,011	-	156,011	-	-	156,011	(173,154)	(17,143)
Adjustments between accounting basis & funding basis under regulations	7	(194,018)	-	(194,018)	(11,755)	(39,269)	(245,042)	245,042	-
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		<b>(38,007)</b>	<b>-</b>	<b>(38,007)</b>	<b>(11,755)</b>	<b>(39,269)</b>	<b>(89,031)</b>	<b>71,888</b>	<b>(17,142)</b>
Transfer to / from Earmarked Reserves	8	38,319	(38,319)	-	-	-	-	-	-
<b>(Increase) / Decrease in 2017/18</b>		<b>312</b>	<b>(38,319)</b>	<b>(38,007)</b>	<b>(11,755)</b>	<b>(39,269)</b>	<b>(89,031)</b>	<b>71,888</b>	<b>(17,142)</b>
<b>Balance at 31 March 2018 carried forward</b>		<b>(31,497)</b>	<b>(188,104)</b>	<b>(219,600)</b>	<b>(12,255)</b>	<b>(111,443)</b>	<b>(343,299)</b>	<b>(1,386,692)</b>	<b>(1,729,991)</b>

# Presentation of Financial Statements

## 4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses the cash and cash equivalents by classifying cash flows as 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.

2016/17 £000s		Note	2017/18 £000s
<b>(208,659)</b>	<b>Net surplus or (deficit) on the provision of services</b>		<b>(156,011)</b>
320,626	Adjustment to surplus or deficit on the provision of services for noncash movements	25	343,603
(149,526)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(150,639)
<b>(37,559)</b>	<b>Net Cash flows from operating activities</b>		<b>36,953</b>
16,886	Net Cash flow s from Investing Activities	26	21,425
24,947	Net Cash flow s from Financing Activities	27	(34,694)
<b>4,275</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>23,683</b>
96,006	Cash and cash equivalents at the beginning of the reporting period		100,281
<b>100,281</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>123,964</b>

# **Statement of Accounting Policies**

# Statement of Accounting Policies

This section explains the accounting policies that the Council has applied in preparing these accounts. The Statement of Accounts summarises the Council's transactions for the financial year 2017/18 and its position at the year-end 31st March 2018. The statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 'Code'). The Council has adopted the historical cost accounting convention modified by the revaluation of certain types of Property, Plant and Equipment.

## Accruals of Income and Expenditure

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

In particular:

- The accounts are maintained on an accruals basis in accordance with the Code. The accounts are prepared on the basis of income being due and expenditure becoming payable in the financial year. This means that sums due to or from the Council during the year are included in the accounts whether or not the cash has actually been received or paid in that year. Any differences between the actual and accrued amounts will be reflected in the accounts of the following year.
- Income and expenditure are credited and debited respectively to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.
- Income is recognised when and to the extent that performance occurs, and is measured at the fair value of the consideration received or receivable
- A debtor or creditor for the relevant amount is recorded in the Balance Sheet where income and expenditure have been recognised but cash has not been received or paid at the balance sheet date.
- Where it is doubtful that debts will be settled, provisions are made for bad and doubtful debts.
- Supplies and services are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services.
- Interest receivable on cash deposits and interest payable on borrowings are accounted for on the basis of the effective rate of interest for the relevant financial instrument rather than the cash flow fixed or determined by the contract. The amounts due or receivable at the year-end are included in the balance sheet in current assets and liabilities respectively.

## Acquired and Discontinued Operations

Acquired and Discontinued Operations are accounted for in accordance with the Code and separately disclosed where material. Where functions have transferred as a result of the reorganisation of public sector services, the acquisition is accounted for as a combination of business under common control, with any assets or liabilities transferring at their carrying amounts.

## Capital Accounting Accounts

These comprise:-

- The Revaluation Reserve, which represents the balance of any net surplus arising on the periodic revaluation of fixed assets analysed on an individual asset basis.
- The Capital Adjustment Account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on non-current assets, provision for the repayment of external loans and

# Statement of Accounting Policies

the reversal of amounts included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the movement on the General Fund Balance for the year.

The above accounts are not available to fund future expenditure.

## Capital Receipts

When an asset is disposed of the value of the asset in the balance sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve applicable to the asset disposed of are transferred to the Capital Adjustment Account. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement. The gain or loss on the disposal of an asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the asset.

Capital receipts are required to be credited to the Usable Capital Receipts reserve and can then only be used to finance capital expenditure or to repay debt. Receipts are appropriated to the reserve from the Movement on Reserves Statement.

The written-off value of assets disposed of is not a charge to the General Fund Balance as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement on Reserves Statement.

Such income that is not reserved for the repayment of external loans and has not been applied in financing capital expenditure is held on the balance sheet as usable capital receipts.

## Carbon Reduction Commitment Scheme (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is now in phase 2 of its operation, which runs until 31 March 2019. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. The cost of the scheme is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is accrued in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## Cash and Cash Equivalents

Cash is defined as cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than 24 hours. They include deposits in constant Net Asset Value money market funds that are available for withdrawal within 24 hours' notice. Cash equivalents comprise investments that are held to meet short term cash flow requirements rather than for investment or other purposes. Bank overdrafts, repayable on demand and which form an integral part of the Council's treasury management, are also included as a component of cash and cash equivalents.

## Charges to Revenue for Non-current Assets

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding Property, Plant & Equipment during the year:

- Depreciation attributable to Property, Plant & Equipment used in service delivery
- Amortisation of intangible assets used in service delivery
- Impairment losses due to consumption of economic benefits on intangible assets and Property, Plant & Equipment used in service delivery and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

Depreciation provided on surplus assets is charged to the Resources directorate.

# Statement of Accounting Policies

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement, calculated in accordance with statutory guidance. Depreciation, impairment losses and amortisation charges are therefore reversed and replaced by a revenue provision (the Minimum Revenue Provision) for debt repayment in the Movement on Reserves Statement. These adjusting entries are reflected in the Capital Adjustment Account.

## Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not provided for within the statement of accounts whilst uncertainty remains over the final outcome or if it is not practicable to estimate the amounts involved. These items are disclosed by way of notes to the accounts.

## Council Tax and National Non Domestic Rates

Council Tax and a share of National Non Domestic Rates (NNDR, or business rates) are collected by billing authorities acting as agent on behalf of precepting authorities. They are included in the Comprehensive Income and Expenditure Statement as the accrued income for the year, together with the Council's share of any surplus or deficit at year end on each billing authority's Council Tax and NNDR Collection Funds, plus the Council's share of any surplus/deficit from the preceding year that has not been distributed or recovered.

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 in the year is taken to the Collection Fund Adjustment Account.

The Council recognises debtors in the Balance Sheet for its share of net cash collected by billing authorities but not paid over to it at the Balance Sheet date, as well as its share of amounts owed by Council Tax and NNDR payers to the billing authority (net of an allowance for doubtful debts).

The Council recognises creditors for cash received from billing authorities in advance of the billing authority receiving the cash from payees along with its share of any prepayments or overpayments made. It also includes its share of any provision for the impact of Non- Domestic Rating Appeals.

## Employee Benefits

### Benefits payable during employment

Short term Employee Benefits are those that fall due within 12 months of the reporting year end, and include wages, salaries and social security contributions, compensated absences and non-monetary benefits, such as flexi-time.

Compensated absences are periods of paid leave, and may be accumulating or non-accumulating. 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. They include annual leave, flexi-time and time in lieu. They may be vesting or non-vesting: where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement; where non-vesting, benefits lapse if an employee leaves before the vesting date.

The Government has issued regulations that mean the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. The value of these benefits, for example the value of leave that an employee carries forward at year end, is accrued and transferred to the Accumulated Absences Account until used. The accrual is based on the salary applicable in the following accounting year, being the period in which the employee takes the benefit. The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

# Statement of Accounting Policies

Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. The cost of non-accumulating compensated absences is recognised when the absences occur.

## Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

- a) an employer's decision to terminate an employee's employment before the normal retirement date, or
- b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are often lump-sum payments, but also include:

- a) enhancement of retirement benefits, and
- b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

Voluntary early retirement benefits under scheme rules are not termination benefits since such benefits are a right of all scheme members. They are accounted for as post-employment benefits rather than termination benefits.

As termination benefits do not provide the Council with any future economic benefits or service potential they are always immediately posted as an expense in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement when they are recognised i.e. when the Council has made a firm commitment to the offer.

Where the termination benefits are granted under the provisions of a pension scheme, they will be covered by the adjustment rules applicable to post-employment benefits. Adjustments will then be permissible in the Movement in Reserves Statement to ensure the impact on the bottom line of the General Fund is limited to the amounts actually payable in the financial year.

## Estimation Techniques

The accounting policy specifies the basis on which an item is measured. However where there is uncertainty over the monetary amounts corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves, the amount is arrived at using an estimation technique that most closely reflects the economic reality of the transaction. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

## Events after the Balance Sheet Date

Where material, events that occur after the balance sheet date that provide additional evidence relating to conditions existing at that date are reflected within the accounting statements. Post balance sheet events that relate to conditions that did not exist at the balance sheet date are disclosed by way of a note to the accounts, if the impact on the accounts would be material.

## Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items are included in the cost of the service to which they relate when to do so would not distort the service expenditure. Otherwise they are to be disclosed separately in the Comprehensive Income and Expenditure Statement (CIES). The Code prohibits the treatment of any items of income or expense as 'extraordinary', therefore the Council accommodates all items within one of the specified lines of the Surplus or Deficit on the Provision of Services or the Other Comprehensive Income and Expenditure.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Prior period adjustments, if material, would be accounted for by restating comparative figures for the preceding accounting period.

# Statement of Accounting Policies

## Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 measurement assumes that the transaction takes place in an orderly fashion between willing participants in the instrument's main market, who act in their own financial best interests, under the market conditions prevailing on the measurement date.

The fair value of a financial liability is the price that would be paid to transfer it to another participant of equal credit standing, not the price that would be paid to cancel it with the lender. If there is no quoted price in an active market, and the liability is a financial asset of the counterparty, then it should be measured from the counterparty's perspective – i.e. the price they would receive to sell it to another lender.

*IFRS 13* introduces a three level hierarchy for the inputs into a fair value calculation:

- Level 1 – quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – unobservable inputs for the asset or liability, e.g. non-market data such as cash flow forecasts

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## Financial Instruments – Assets

### Loans and Receivables

Loans and receivables have fixed or determinable payments and are not quoted in an active market. The Comprehensive Income and Expenditure Statement includes annual credits for interest receivable, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The value of loans and receivables shown in the Balance Sheet equals outstanding principal plus any outstanding interest receivable at year end.

No loans and receivable assets are long-term investments and therefore the fair value is assumed to equate to carrying value, or the billed amount.

### Available for Sale Financial Instruments

Available for Sale Financial Instruments are quoted in an active market. Income in the form of dividends or interest due for the year is credited to the CIES.

Available for Sale Financial Instruments are carried in the balance sheet at Fair Value in line with the requirements of IFRS 13. Fair Value is calculated as the market 'bid' price per unit multiplied by the number of units held, plus any outstanding interest owed at year end.

The increase or decrease in market value is presented in the balance sheet in Available for Sale reserve, which is an Unusable Reserve given that any change in market value will only be realised when sold.

### Unquoted Equities

The Council holds a small number of unquoted equities which are held in the balance sheet at cost. Any dividends are included in the CIES as Financing and Investment Income.

# Statement of Accounting Policies

As these investments are in both subsidiaries and joint ventures which are not classified as 'held for sale', they have been accounted for at cost, as it is not practical to derive a fair market value for these assets.

## Impairment

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the CIES.

## Soft Loans

The Council has made a number of loans to third parties at less than market rates (soft loans). Where a soft loan is made, a cost is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in the balance showing a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the third party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, with the difference absorbed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The fair value of these assets is assumed to be the carrying value as it is not possible to derive a fair market value for these types of instruments.

## Financial Instruments – Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. As required by IFRS13, the fair value of liabilities is disclosed in note 43. This is calculated as the value of future cash flows related to the liability, discounted at current market rates.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal and interest repayable, and interest on borrowing charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council, through the Local Authority Mortgage Scheme (LAMS), acts as a guarantor for mortgage loans made by third party banks or building societies. These guarantees are recognised at fair value. This recognition at fair value is initially charged against the Council's general fund balances, but the impact is offset by a transfer from a specific reserve set up to fund the costs of this service. The Council has placed deposits with the lending institutions which, following legal opinion on the nature of these advances, have been capitalised.

The Fair Value of the guarantee is measured by the amount of mortgages issued and payable under the guarantee, and the estimated likelihood of default, in line with IFRS13.

# Statement of Accounting Policies

## Foreign Currency transactions

The Council had no investment holdings in foreign currencies during the year. Where transactions have taken place in a foreign currency, these are recorded in the accounts at the exchange rate applicable at the time of the transaction.

## Grants and Contributions

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition (as distinct from a restriction) that the Council has not satisfied.

Conditions are stipulations that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Restrictions are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified. The key difference between a condition and a restriction is that a condition requires the grant funder or donor to have a right to the return of their monies or the donated asset (or similar equivalent compensation).

In the cases where the conditions of a grant has not been satisfied and there is an explicit requirement to repay the grant if the conditions are not met, any balances unspent are treated as creditors (for revenue grants) or Capital Grants Received in Advance (capital).

When the conditions of a grant have been met and it has been reflected as income in the Consolidated Income & Expenditure Statement, the Council still has discretion to carry the grant income forward through an earmarked reserve if it deems this appropriate. This could arise in cases where there is no condition on the timescale in which a grant can be spent, but it has not been spent at the year-end.

In relation to capital grants or contributions which have been used to fund capital expenditure, when these are recognised as income in the Consolidated Income & Expenditure Statement, then the effect of this is reversed through the Movement in Reserves Statement and added to the Capital Adjustment Account.

In relation to capital grants or contributions recognised as income in the Comprehensive Income and Expenditure Statement, where the expenditure has not yet been incurred at the Balance Sheet date, the recognised income is transferred to Usable Reserves (Capital Grants Unapplied Account), representing capital resources not yet utilised.

The transfer from the General Fund for both these adjustments is recorded in the Movement in Reserves Statement. When expenditure is subsequently incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account. This transaction represents the application of capital resources to finance the expenditure incurred and is reported in the Movement in Reserves Statement for these Reserves or in the notes to the accounts.

## Group Accounts

The boundary for Group Accounts is determined by the extent of the Council's control or influence over an entity, and the materiality of the relationship to users of the Council's accounts. Group Accounts are prepared in accordance with IFRS3, IFRS10, IFRS11 and IFRS12, and with IAS27, IAS28 and the Code, where required and material.

A Subsidiary is an entity which the Council controls through the power to govern its financial and operational activities; where it has exposure or rights to variable returns from its involvement in the entity, and where it has the ability to use its power to influence the level of those returns. Control will normally, but not necessarily, be presumed to exist where the Council is the majority shareholder.

An Associate is an entity where the Council has significant influence to participate in the financial and operational decision making of the entity, but stopping short of control. It is normally, but not necessarily, presumed that significant influence exists where the Council owns 20% or more of the entity.

# Statement of Accounting Policies

A Joint Venture exists where the Council is party to the contractually and binding agreed shared control of an organisation, where strategic financial and operating decisions that significantly affect returns require the unanimous consent of the parties sharing control; and where the Council has rights to the net assets of the arrangement, but not the rights or obligations to particular assets or liabilities.

Joint Operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. To meet the definition of Joint Operation, the parties must have rights to particular assets or obligations for particular liabilities; and there must be joint control, that is decisions on relevant activities require the unanimous agreement of all parties. Joint Operations are accounted for in the Council's single entity accounts rather than group accounts, and the Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs; and includes in the Comprehensive Income and Expenditure Statement the expenditure it incurs and the share of income it earns from the operations.

A Subsidiary is consolidated into Group Accounts by adding like items of income, expense, assets and liabilities, and eliminating transactions and balances between the entities.

Associates and Joint Ventures are consolidated into Group Accounts by the equity method, adjusting the original investment for any post acquisition change in the Council's share of the assets of the entity; and including in the Group Comprehensive Income and Expenditure Statement the Council's share of the entity's profit or loss for the year.

In previous years, group accounts have been prepared for Hertfordshire Catering Ltd (100% owned subsidiary) and for Herts for Learning (20% owned associate in 2016/17), to consolidate with the Council's single entity accounts. An annual assessment is taken however, to review the Council's investments in companies and determining if a group boundary exists. This review uses the standard determination of group status provided in the national Code of Practice for local government accounts.

The latest review has resulted in a decision not to produce group accounts for 2017/18, on the basis that the adjustment to produce group accounts is neither material in nature, nor enhances the overall value and clarity of the accounts for Stakeholders. This decision will be reviewed each year in line with recommended good practice.

Investments in Herts for Learning, Hertfordshire Catering Limited, Herts Living Limited and Surecare Supplies Ltd are recognised on the Council's Balance Sheet as unquoted equity investments at cost. Investments in the PFI companies are not recognised as they are not material.

The extent of these investments is shown in Note 48 Investment in Companies.

## Heritage Assets

A Heritage Asset is an asset that is intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities; and may be tangible or intangible. Currently the Council holds no intangible heritage assets. The Council classifies its heritage assets under the following headings:

- Paintings
- Artefacts
- Sculptures

Heritage assets are normally measured at fair value. Valuations may be made by any method that is appropriate and relevant. The Council uses insurance valuations as an appropriate and relevant valuation and these valuations are carried out and verified by external valuers Townley Valuation Services (TVS). In exceptional circumstances where a cost or valuation of a heritage asset cannot be determined and is not reported in the balance sheet, the Council will disclose any information available which is helpful in assessing the value of those assets, including why it has not been possible to obtain a value along with the significance and nature of those assets.

The Council has not been able to determine a cost or valuation for its Record Office documents known as Hertfordshire Archives and Local Studies (HALS). HALS is treated as part of the Council's library assets. Whilst

## Statement of Accounting Policies

these may be of interest to a historian, it has not been possible to obtain an insurance valuation and there are no recorded costs for the collection of documents, accordingly HALS is not reported in the balance sheet.

The Council's heritage asset collection is relatively static and acquisitions and donations are rare. If they do occur acquisitions will be capitalised and initially recognised at cost and donations or bequeaths at nil consideration are recognised at valuation as provided by our external valuers.

It is considered that the Council's heritage assets have an indefinite life and are not depreciated but tested for impairment annually. Impairment to a heritage asset will be considered in circumstances of any physical deterioration, breakage or where doubts have been identified regarding its authenticity.

Disposals of heritage assets are not anticipated but would require member approval. On disposal the carrying amount of the heritage asset is derecognised. The gain or loss arising from de-recognition is the difference between the net disposal proceeds (if any) and the heritage asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

### Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits are expected to flow from the intangible asset to the Council. The Council distinguishes between two classes of intangible assets: software & licences and portal & web design.

An intangible asset is measured initially at cost. After initial recognition, an intangible asset may be carried at a revalued amount where its fair value can be determined by reference to an active market. Otherwise, an intangible asset will be carried at cost less any accumulated amortisation and any accumulated impairment loss.

The depreciable amount of an intangible asset with a finite useful life is amortised on a systematic basis over its useful life, beginning when the intangible asset is available for use and reflecting the expected pattern of use of the economic or service benefits. If the pattern cannot be determined reliably, the straight-line method is used. The amortisation period and method is reviewed annually.

An intangible asset with an indefinite life is not amortised, but is tested annually at year end for impairment and to confirm the indefinite life.

### Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or for both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property and is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, an investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in the Surplus or Deficit on the Provision of Services for the period in which it arises. The fair value of investment property reflects market conditions at the balance sheet date. This means that a periodic revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. An investment property held at fair value is not depreciated.

The Council currently has no Investment Properties, however an annual assessment is undertaken to ensure that no such properties need recognition at each balance sheet date.

### Inventories

Inventories comprise such items as vehicle spares, uniforms, stationery, equipment and other materials. All consumable and non-durable items are charged to the Comprehensive Income and Expenditure Statement in the year of purchase. Inventories are measured at the lower of cost and net realisable value.

# Statement of Accounting Policies

## Leases

Leases are classified as either finance leases or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

### The Council as lessee

#### Finance leases

The Council, as lessee, initially recognises finance leases as assets and liabilities at amounts equal to the fair value of the asset or, if lower, the present value of the minimum lease payments. Future valuations are in line with the Council's general PPE revaluation policy. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciation policy for assets held under finance leases is consistent with the depreciation policy for owned assets.

#### Operating leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### The Council as lessor

#### Finance leases

The Council, as lessor, recognises assets held under finance leases as a receivable at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and finance income, with the interest element shown in Financing and Investment Income and Expenditure on the Comprehensive Income and Expenditure Statement and the principal element reducing a long term debtor on the Balance Sheet. The finance income is calculated so as to produce a constant periodic rate of return on the net investment. The asset itself is derecognised from Property, Plant and Equipment.

The depreciation policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

#### Operating leases

Items of property, plant and equipment let out under operating leases are presented according to the nature of the asset. Income from operating leases is recognised on a straight-line basis over the lease term.

#### Arrangements that may contain a lease

An arrangement (other than PFI arrangements), comprising a transaction that does not take the legal form of a lease but nevertheless conveys a right to use an item of property, plant and equipment, in return for a payment or series of payments, may be accounted for as though the arrangement is, or contains, a lease.

If an arrangement is, or contains, a lease, the lease is classified either as a finance lease or an operating lease as appropriate.

## Long Term Contracts

Long term contracts are accounted for on the basis of the Comprehensive Income and Expenditure Statement being charged in the year during which the cost of goods or services were received or provided.

# Statement of Accounting Policies

## Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction rather than through continued use and it meets the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- Management must be committed to a plan to sell the asset, and it must be actively marketed for a sale at a price that is reasonable in relation to its current fair value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is measured at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting period.

No depreciation is charged on tangible assets and no amortisation is made in relation to intangible assets whilst they are classified as Assets Held for Sale.

The Code requires that an asset held for sale should be declassified as such, as soon as any of the qualifying criteria detailed above are no longer met. However an asset that is taking more than a year to sell will not automatically mean that it fails to meet the 'available for immediate sale' criterion if the delay is caused by events or circumstances beyond the Council's control and there is sufficient evidence that the Council remains committed to its plan to sell the asset; however, it will be presented as a non-current asset. Where an asset is declassified as held for sale, the asset is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have taken place if the asset had not been put into Assets Held for Sale, or its recoverable amount at the date of the decision not to sell.

For assets previously held at historical cost, any adjustments in the carrying amount of the asset on declassification is posted to the Surplus or Deficit on the Provision of Services as gains and losses in Other Operating Expenditure. The impact on the General Fund Balance is offset by a compensating transfer to the Capital Adjustment Account in the Movement in Reserves Statement. For assets previously carried at a valuation, any adjustments in the carrying amount is treated as revaluation gains or losses and posted to the Revaluation Reserve. If there are insufficient revaluation gains in the reserve to absorb a loss, the excess is debited to the Surplus or Deficit on the Provision of Services as Other Operating Expenditure, and the impact on the General Fund Balance is offset by a compensating transfer to the Capital Adjustment Account.

## Private Finance Initiative schemes (PFI)

### The Code of Practice

The Code of Practice requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the Council, public services related to infrastructure. In addition, IFRIC 12 requires the Council to:

- Control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and to
- Control any significant residual interest, through beneficial entitlement or otherwise, in the infrastructure at the end of the term of the scheme.

### Services received

The fair value of services received in the year is recorded under the relevant expenditure within the Comprehensive Income and Expenditure Statement.

# Statement of Accounting Policies

## PFI asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IFRIC 12. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset.

## PFI liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets (less any capital contributions) and is subsequently measured as a finance lease liability.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to 'Interest Payable' in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. This amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expressed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent 'Interest Payable' in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

## Lifecycle replacement

Components of the asset replaced by the operator during the contract (lifecycle replacement) are capitalised where they meet the Council's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term finance lease liability or pre-payment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

## Assets contributed by the Council to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Council's Balance Sheet.

## Property, Plant and Equipment

Property, plant and equipment are tangible assets with physical substance that are held for use in the provision of services, for rental to others or for administrative purposes and are expected to be used during more than one period.

## Recognition

The cost of an item of property, plant and equipment is recognised when it is probable that future economic benefits or service potential associated with the asset will flow to the Council and that the cost can be measured reliably.

## Statement of Accounting Policies

Subsequent costs arising from day-to-day servicing of an asset (that is, labour costs and consumables), commonly referred to as 'repairs and maintenance', are not recognised as property, plant and equipment because the expenditure does not add to the future economic benefits or service potential of the asset. Rather, the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.

Where a component of an item of property, plant and equipment is replaced or restored, the carrying amount of the old component is derecognised and the cost of the new component reflected in the carrying amount, subject to the above recognition principle being met.

The Council applies the following de-minimis levels for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment:

Category of Expenditure	De-Minimis Level
Property (Non-Schools)	£10,000
Property (Schools)	£2,000
Infrastructure	£10,000
Vehicles, Plant and Equipment (Non-Schools)	£5,000
Vehicles, Plant and Equipment (Schools)	£2,000

### Measurement

An item of property, plant and equipment is initially measured at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset to the location and condition necessary for its intended use.

Subsequently, an item of property, plant and equipment is carried in the balance sheet using the following measurement bases:

Type of Asset	Basis of Valuation
Infrastructure Community Assets Assets Under Construction	Depreciated historical cost
Other Land & Buildings	Current value based on existing use value (EUV). Depreciated replacement cost (DRC) if EUV cannot be determined
Vehicles, Plant, Equipment and Furniture	Depreciated historical cost as a proxy for fair value, where assets have short useful lives
Surplus Assets	Fair value based on highest and best use value
Investment Property Assets Held For Sale	Market value

Land and buildings are revalued by professionally qualified valuers at intervals of no more than five years. The revaluation process includes a rolling programme, with assets within a class completed within a short period of time; a material change review at year end, with revaluation if required; and revaluations when there has been a significant change to the asset (e.g. major building works).

Where the carrying amount of an item of property, plant and equipment is increased as a result of a revaluation, the increase is recognised in the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement In Reserves Statement, unless the increase is reversing a previous impairment loss charged to Cost of Services on the same asset or reversing a previous revaluation decrease charged to Cost of Services on the same asset.

# Statement of Accounting Policies

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation (that is, a significant decline in an asset's carrying amount during the period that is not specific to the asset) as opposed to an impairment, the decrease is recognised in the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement in Reserves Statement up to the credit balance existing in respect of the asset and thereafter in Cost of Services.

## Impairment

At the end of each reporting period, an assessment is made of whether there is any indication that an item of property, plant and equipment may be impaired. If there is indication of impairment, the recoverable amount of the asset is estimated to determine any impairment loss.

Where impairment losses are identified, the asset is written down to its recoverable amount and:

- Where there is no balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement
- Where there is a balance for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains). Any excess is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. Any excess is credited to the Revaluation Reserve.

## Depreciation

Depreciation applies to all items of property, plant and equipment whether held at historical cost or revalued amount, with the exception of land where it can be demonstrated that the asset has an unlimited useful life.

The depreciation charge is based on the asset's value, allocated over its useful life. The following methods are used, reflecting the pattern in which the future economic benefits or service potential of different assets are expected to be consumed:

- **Buildings:** Straight-line allocation over the life of the property, generally between 10 and 100 years;
- **Vehicles, plant and equipment:** Straight line allocation over the life of the asset generally between 3 and 10 years;
- **Infrastructure:** Straight-line allocation over the life of the asset generally between 8 and 60 years.

Items of property, plant and equipment are not depreciated until they become available for use (that is, when the asset is in the location and condition necessary for its intended use). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

The residual value of an item of property, plant and equipment, its useful life and depreciation method are reviewed at least at each financial year end and, if expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate. Plant and equipment with a gross book value of less than £0.1m are written out of the accounts when they are fully depreciated.

## De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition is the difference between the net disposal proceeds (if any) and the asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

## Componentisation:

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts are to be grouped in determining the depreciation charge.

# Statement of Accounting Policies

The Council has determined that only individual buildings over £2m are subject to componentisation and these are assessed against 3 components determined by the valuers, namely:

Component	Useful Life
Flat Roof	<b>20 years</b>
Services (heat source, electrical installations, lifts, alarms, etc.)	<b>20 years</b>
Window Walling/Concrete Cladding	<b>50 years</b>

In addition, a component is only separately identified if it represents 20% or greater of the total asset value. The balance of the cost of the total asset not assigned to components is held against the Main Structure and subject to depreciation over 20 to 100 years.

The Council has decided to apply the componentisation policy to an asset from 1<sup>st</sup> April 2010 when triggered by the following events: -

- When acquired as a new asset;
- where an asset is enhanced, with components being recognised for existing components as well as to the enhancement work; and
- where an asset is revalued

As at 31<sup>st</sup> March 2018 all assets have been assessed for componentisation purposes.

## Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, where a reasonable estimate of the amount can be made but where the timing of the transfer is uncertain or there is uncertainty of the amount.

Provisions are charged to the appropriate service revenue account in the year that they are recognised and are detailed in the notes to the accounts. Expenditure incurred on items for which the provision was originally set up is charged directly to the provision. The level of each provision is reviewed at the balance sheet date. Provisions that are no longer required will be credited back to the original service revenue account from where the provision was created.

## Post-Employment Benefits

The Council participates in four different pension schemes that meet the needs of employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers** - this is an unfunded scheme administered by the Teachers' Pension Agency (TPA). The pension cost charged to the accounts is the contribution rate set by the TPA on the basis of a notional fund. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as a defined contribution scheme, that is, no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to the TPA for the year.
- **NHS Pension Scheme** - for Public Health employees transferred from the National Health Service. It is accounted for as a defined contribution scheme, as it is a multi-employer scheme where it would be extremely difficult to identify the underlying scheme assets and liabilities to the Council. Employer contributions paid into the scheme are charged to the Public Health service revenue account in year.

## Statement of Accounting Policies

- **Uniformed Firefighters** - this scheme is unfunded. With effect from 1 April 2006 the Council pay an employer's pension contribution based on a percentage of pay into the Firefighter's Pension Fund. The Pension Fund will be balanced to nil at the end of the year through a cash settlement with central government.
- **Other employees**, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The Council pay an employer contribution rate of a percentage of pensionable pay.

The Uniformed Firefighters and Local Government Pension Schemes are both accounted for, under IAS 19 Employee Benefits, as defined benefit schemes.

- The liabilities of these pension schemes attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of future earnings for current employees.
- **Liabilities** are discounted to their value at current prices, using a discount rate based on the yield of a basket of AA-rated bonds (Iboxx Sterling Corporate Bond Index, AA over 15 Years).

The assets of the Local Government Pension Fund attributable to the Council are included in the balance sheet at their fair value:

- **Quoted securities** – current bid price
- **Unquoted securities** – professional estimate
- **Unitised securities** – current bid price
- **Property** – market value

The change in the net pensions liability is analysed into the following components:

- **Current Service Cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- **Employer Contributions** paid to the pension funds
- **Past Service Cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Central Items
- **Settlements and Curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Central Items
- **Net Interest on the Net Defined Liability** – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. The net interest on the net defined liability (asset) comprises the interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling – debited to Financing and Investment income in the Comprehensive Income & Expenditure Statement.
- **Re-measurements of the net defined benefit liability** – comprising Actuarial Gains and Losses, i.e. changes in the present value of the defined benefit obligation resulting from a) experience adjustments and b) the effects of changes in actuarial assumptions. These are debited to Other Comprehensive Income & Expenditure. Re-measurements also include Return on Plan Assets, excluding the amount included in the net interest on the net defined liability, which is credited to Other Comprehensive Income & Expenditure.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

# Statement of Accounting Policies

## Revenue Expenditure Funded from Capital under Statute

Expenditure that may be capitalised under statutory provisions, but does not result in the creation of non-current assets, has been charged as expenditure to the relevant service revenue account in the year. Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account via the Movement in Reserves Statement then reverses out the amounts charged in the Comprehensive Income and Expenditure Statement, thereby ensuring there is no impact on the level of General Fund Balances.

## Schools Accounting Treatment

The Council as Local Education Authority has responsibility for the provision of education within Hertfordshire, and allocates funding to Hertfordshire maintained schools, which may be Community, Voluntary Aided, Voluntary Controlled or Foundation Schools. Where schools are deemed under IFRS 10 to be entities under the Council's control, and hence fall within the group boundary, the Code provides a specific adaptation of IFRS10 and consequently IAS27 Separate Financial Statements, such that they are consolidated and reported within the Council's single entity financial statements.

Whilst this applies to the income and expenditure, liabilities, current assets and reserves of all maintained schools, the determination of control of assets in line with the relevant standards means that treatment varies by type of school as below. Control is assessed by consideration of who determines access to the school via admissions policy, and who makes decisions on the use of the asset and is responsible for its maintenance and development. While aspects of control over assets are held by the schools' governing bodies, they act independently of the Council and so are deemed to be outside the group boundary in this context.

### Community Schools

As the Council is normally the freeholder of Community School premises, controls admissions, is responsible for maintenance and development and has a significant role in the running of the school, the school premises are recognised under Property, Plant and Equipment in line with the accounting policy stated above.

### Voluntary Controlled Schools

Schools are usually owned by a charity but the Council is responsible for the running of the school, employing the staff and determining and administering the admissions policy. Although the Council does not have any clear legal entitlement to the asset, using the principal of faithful representation, the Council has determined that it will receive future service potential from these assets, and that it holds significant control over them through the admissions policy which determines access to the asset, and its responsibility for the maintenance and development of the assets. The land, buildings and equipment of these schools will therefore be recognised by the Council under Property, Plant and Equipment on the Balance Sheet of the Council.

### Voluntary Aided Schools

Schools are owned and managed by a charity or trust but the Council partially funds and also provides support services to the school. Although the Council will occasionally own the freehold of the land and buildings, the schools buildings are maintained and controlled by the respective charities/trusts and the Council's only statutory duty is for the playing fields. The admissions policy is set by the governing body, so the Council does not control access to the asset or the services provided, and hence IFRIC 12 does not apply. It has therefore been determined in conjunction with the Council's valuers that the playing field element of the schools premises will be recognised by the Council under Property, Plant and Equipment but that the building element fails the test of the Council holding significant control to allow them to be retained on the Council's Balance Sheet. IFRIC 4 has been deemed not to apply as the Council does not rely on the use of a specific school to ensure sufficient pupil places are available, and so the arrangement does not rely on specific assets.

### Foundation Schools

Schools are funded by the council but owned and managed by the governing body or other entity, including the provision of any support services, and decisions on the maintenance and development of land and buildings. The governing body acts independently of the Council in making these decisions. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided, as the governing body is the admissions authority and the Government controls the service and sets the curriculum. IFRIC 4 has been deemed not to apply

# Statement of Accounting Policies

as the Council does not rely on the use of a specific school to ensure sufficient pupil places are available and hence the arrangement does not rely on specific assets.

## Academies

Schools are managed completely independently of the Council with funding provided directly by central government. The Council grants long leases as part of the Academies transfer which are covered under IAS 17 definition of leases and treated accordingly. The Council will retain the title. However as responsibility for the land and buildings is with the school, which will hold these on their balance sheet, the Council has derecognised the land and buildings from Property, Plant and Equipment within its balance sheet. De-recognition takes place at the time that the long lease is granted. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided as Governors are the admissions authority and the Government controls the service and sets the curriculum. IFRIC 4 has been deemed not to apply as the Council has leased the land to the Academy and therefore covered by lease arrangement under IAS 17 and treated in accordance with the leases policy above.

## Free Schools

Schools are established, owned and managed completely independently of the Council with funding provided directly by central government. There are currently four Free Schools in Hertfordshire in which the Council has a property interest: these assets have been the subject of major construction or refurbishment and will be transferred by way of long lease once the defects period on these works is expired.

## Specific Reserves

Specific Reserves are sums of money earmarked to provide, in the main, flexibility in funding between years. A detailed make up of specific reserves is given in note 8 to the accounts. Transfers to create or replenish reserves are made via the Movement in Reserves Statement. Expenditure incurred on items for which the reserve was originally established is shown as service expenditure offset by a contribution from the reserve to the Movement in Reserves Statement.

## Value Added Tax

Income and expenditure are shown net of Value Added Tax (VAT). VAT is included in the Comprehensive Income and Expenditure Statement to the extent that it is irrecoverable.

## **Notes to the Accounts**

# Notes to the Accounts

## Note 1: Restatement and change in accounting policies

Local Authorities are permitted to change an accounting policy only if the change:

- is required by a standard or interpretation; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

Changes to accounting policies may result in retrospective application where adjustments will be required to restate opening balances on a like-for-like basis, i.e. a Prior Period Adjustment (PPA), or prospective application i.e. only in the year the changes is being introduced and beyond.

PPA may also be required to correct for material errors or omissions which resulted in a misstatement in the accounts.

For 2017/18:

- 1) No PPA's were required to correct for material errors or omissions in the accounts
- 2) There were no changes to accounting policies which required retrospective application
- 3) There were no changes to accounting policies which applies from the current year

## Note 2: Accounting standards that have been issued but have not yet been adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following accounting standards have been issued but have not been adopted under the Code until 1 April 2018:

- IFRS 9 Financial Instruments introduces extensive changes to the classification and measurement of financial assets and a new "expected credit loss" model for impairing financial assets.
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model.
- IAS 12 Income Taxes: Recognition of Deferred tax Assets for Unrealised Losses applies to deferred tax assets related to debt instruments measured at fair value.
- IAS 7 Statement of Cash Flows: Disclosure Initiative may potentially require some additional analysis of Cash Flows from Financing Activities (note 27) in future years.

These changes are not significant and are not expected to have a material effect on the Council's Statement of Accounts.

# Notes to the Accounts

## Note 3: Critical Judgements in applying Accounting Policies

In applying the accounting policies set out above, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts 2017/18 are:

### Schools Fixed Assets

While the Code requires the transactions of the Council's maintained schools to be consolidated in its single entity accounts, the inclusion of school fixed assets is determined by the assessment of the Council's control of those assets, and its rights to receive service potential or economic benefits. Judgement has been made that control depends on who controls access to the asset and hence its service potential, through control of pupil admissions; and who has responsibility for the maintenance and development of the asset. These powers may outweigh the control conferred by ownership of the asset. Aspects of control may be exercised by the governing body, who are judged to be independent of the control of the local authority.

On this basis, Community schools are included on the balance sheet, as pupil admissions are determined by the Council and all decisions on maintenance and development of the asset are taken by the Council. Voluntary Controlled (VC) schools are similarly included as the Council controls their admissions and is responsible for maintenance and development of the asset (and has been since these schools took VC status under the 1944 Education Act). Although ownership in general rests with the relevant Diocese, it is judged extremely unlikely that they would exercise their right to take back the asset; and under the 1998 Schools Standards and Framework Act, any such decision requires the consent of the Secretary of State.

The assets of Voluntary Aided (VA) schools have been judged not to be controlled by the Council, as it is the governing body who sets the admissions policy, and has responsibility for the maintenance and development of the assets. Capital Maintenance grant is paid to the Diocese rather than being administered by the council, and they contribute to the cost of major capital works. However, the playing fields of VA schools are included in the balance sheet because the Council has a statutory duty to maintain these.

Foundation Schools are similarly excluded as the governing body sets the admissions policy, and is responsible for decisions on the assets' maintenance and development.

### Complex Leases

The Council owns the freehold to two buildings in Stevenage (known as Farnham House and Robertson House). These buildings are leased to a third party, and then sub-leased back to the Council. The Council use these assets as office accommodation. The arrangement has arisen from historical ownership and lease arrangements, and generates net income to the Council of £1.1m. This income is included within the 'non-distributed costs' within 'costs of services'. The lease and sub-lease arrangements will end on the same day (28/09/2018). The lease and sub-lease arrangements contain normal commercial terms and only restrict how the Council, as the current occupier of the buildings, can use the buildings in normal landlord and tenant terms. The leases do not pass any risks of ownership to the third party.

As detailed in the 2011/12 financial statements, the decision was taken to classify leases of care homes from the Council to Quantum Care as operating leases. This is viewed as a critical judgement, given the classification as a finance lease would have resulted in the de-recognition of a large number of assets. This means that assets are retained on the Council's Balance Sheet even though they are leased to Quantum Care on a long-term basis. This is because the lease of the properties is tied up with the provision of services by Quantum and so is not intended to transfer benefits of ownership, only to secure best value from service contracts.

### Heritage Assets

As detailed in the 2011/12 accounts, judgement was made that the Council would use insurance valuations as an appropriate and relevant valuation for heritage assets. These valuations were carried out and verified by external valuers Townley Valuation Services (TVS), except for its Record Office documents, known as Hertfordshire Archives and Local Studies (HALS), where a cost or valuation could not be determined.

# Notes to the Accounts

## Icelandic Bank Deposits

The Council held deposits totalling £28m with Icelandic banks that defaulted on their obligations in October 2008. Since then the value of these deposits has been adjusted in the accounts, to reflect such repayments have been received, and with the impairment value calculated in accordance with accounting practice. In October 2011 the Icelandic Supreme Court upheld the priority status of deposits held by UK local authorities and other UK wholesale depositors, and distributions have been received from Glitnir and Landsbanki HF. In February 2014 the Council sold its claim against the insolvent estate of Landsbanki through an auction process. The sale of this claim means that the Council has recovered 92% of the amounts originally deposited with Landsbanki in 2008.

In February 2012 the Glitnir claim was paid out in full in various currencies, however part was in Icelandic Kroner subject to currency controls. In 2014/15 HCC sold its Icelandic Krona via a currency auction held by the Central Bank of Iceland. This has resulted in a final return of 101% of the original balances deposited.

The administrators for Heritable Ltd have to date made distributions for 98% of the original claim. The Council has included an impairment in the accounts to reflect the possibility that there will be no further recovery following settlement of the administrator's fees. This is based on the latest report from the administrators.

The administrators for Kaupthing Singer & Friedlander Ltd continue to make distributions in the form of dividends and impairment has been recognised based on forecasts in the latest administrator's report.

## Better Care Fund

The BCF "is a programme spanning both the NHS and local government. It has been created to improve the lives of some of the most vulnerable people in our society, placing them at the centre of their care and support, and providing them with 'wraparound' fully integrated health and social care, resulting in an improved experience and better quality of life."

Within Hertfordshire, the pooled budget arrangements are governed by the Section 75 agreed between HCC and E&NH, HV and C&P CCGs through the HWB. Following DoH Group Manual for Accounts 2015-16 Chapter 3 Annex 1 – Accounting for the Better Care Fund, it is important that the accounting reflect in substance the differing patterns of control in place for different elements of the BCF.

Where funding and control is shared the elements have been treated as joint operations and shown in Note 32 (as is the case for CCG monies comprising the core BCF allocation determined by social care relative needs formula, Protection of Social Care, Carers, and jointly funded staff together with joint schemes with East and North Hertfordshire CCG for Westgate and Intermediate Care). Where sole control is exercised by either HCC or the CCGs (as is the case for residual base budgets) the elements are reported within the relevant entity accounts.

## Local Enterprise Partnership

The Council is acting as the Accountable Body for the Hertfordshire Local Enterprise Partnership (LEP). Hertfordshire LEP was formed in 2011 and is a partnership between local businesses within the county of Hertfordshire and local authorities. Their priorities are based around 4 areas: Strategic Infrastructure, Skills & Employment, Enterprise & Innovation and Business Support.

The LEP is a non-statutory body and the LEP Board has 15 elected members made up of Chair, 5 Business representatives, 2 SME representatives, 2 Further or Higher Education representatives, 1 from not for profit sector and 4 from local authorities. They are elected for a set period and are unremunerated. Reporting into the Board are the Programme Management Committee (which scrutinises the work of the Programme Boards and includes Accountable Body membership) and 3 Programme Boards.

The over-riding governance structure is the Assurance Framework which is updated annually and subject to audit, and sets out decision making routes and the structures of all the Boards and Sub groups. The LEP produces a Strategic Economic Plan which sets out the priorities for the period. From this the LEP then bids to Central Government for Growth Deal funding. There have been 3 Growth Deal rounds so far, with the LEP having secured over £133m until 2021.

## Notes to the Accounts

In accounting for the LEP it has been assessed that the Council is acting as the principal in accordance with IAS 18 Revenue and the LEP's transactions have been included in the Council's accounts.

Balances relating to the LEP included with the Council's accounts as at 31st March 2018 include earmarked reserves totalling £6.774m, capital grants unapplied of £26.4m and usable capital receipts of £0.5m

### Group Accounts

The Council has interests in other entities which fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. The Council's interests in Hertfordshire Catering Limited (HCL, a subsidiary), Herts Living Limited (HLL, a subsidiary) and Herts for Learning Ltd (HfL, an associate) are not considered material to the Council's overall financial position. Therefore group accounts have not been prepared for 2017/18.

### Future Funding for Local Government

The Statement of Accounts have been produced on a going concern basis. Despite the high degree of uncertainty about future levels of funding for local government, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to reduce levels of service provision. The Council is well placed to achieve the level of savings required in the Medium Term Finance Forecast (MTFF), and continue to deliver its statutory services

## Notes to the Accounts

### Note 4: Assumptions made about the future and other major sources on estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, which could impact on the useful lives of assets. The Council has Property, Plant and Equipment with a Net Book Value of £2.915 billion on the Balance Sheet as at 31st March 2018, with £68.860 million charged as depreciation during the year.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £0.835 million for every year that useful lives had to be reduced.</p>
<b>Pension Liability</b>	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 Council with expert advice about the assumptions to be applied. The liability estimated as at 31st March 2018 was £1.07 billion.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £299 million. Full sensitivity analysis is disclosed in Note 37 Defined Benefit Pension Schemes.
<b>Provision for NNDR Appeals</b>	The value of National Non Domestic Rates (NNDR) income included in the accounts is reduced by a provision for the estimated value of appeals against valuation decisions, including backdating. These estimates have been calculated by billing authorities, using information from the Valuation Office on outstanding appeals and experience of successful appeal rates. The Council's provision is based on its 10% share of the income lost on successful appeals.	Each 1% increase in the value of appeals that is provided for would give an additional cost of £0.075 million.
<b>Provision for Doubtful Debts</b>	The value of outstanding debtors in the accounts is reduced by a provision for estimated doubtful debts, based on the experience that it is not economic or possible to recover all debt. The Council operates a policy of making provision for specified percentages of debt in age bands above 9 months. The Council does not make provision for debt secured by legal charge against property, where checks have provided a high degree of certainty that the debt is recoverable.	Any debt deemed as irrecoverable over and above this provision will be a charge to service expenditure. Each 1% increase in the level of bad debt requiring write off will give an additional cost of £0.053m.

# Notes to the Accounts

## Note 5: Material Items of Income and Expense

### Service Income

The Council has received contractual rental income from **Quantum Care Ltd** of £6m

### Service Expenditure

The Council has made significant payments to the following contractors and providers that are not disclosed separately:

- **Abbots Care Ltd** – A county-wide block contract for the provision of homecare and enablement homecare services (£8.3m);
- **Arriva Kent and Surrey Ltd** – Provision of supported bus service including concessionary fares (£8.6m)
- **Care By Us Ltd** – relates to HCS spend on a county-wide block contract as well as additional spot rate provision of homecare and enablement homecare services (£12.9m)
- **Central London Community Healthcare** – For the provision of sexual health services (£6.7m);
- **Crime Reductions Initiatives** – (known as CRI) for the provision of drug and alcohol support and prevention services (£6.9m);
- **FCC Recycling Ltd** – Contractor for Water dale Transfer Station, Bletchley & Milton Landfill Site, Hitchin Transfer station, Greatmoor EFW and Lakeside Energy From Waste Site and Haulage to all disposal points. Also manages various Household Waste Recycling Centres (£9.9m);
- **Hertfordshire Community NHS Trust** – For the provision of sexual health services and school nurses (£19.4m)
- **Hertfordshire School Building** – Partnership contract for the Building Schools for the Future, Public Finance Initiative, Marriott's And Lonsdale Schools, Design Build Finance & Operate comprising of a Unitary Charge for the schools plus, as a pass through, utility costs; (£7.2m);
- **Opus Arup International Consultants** – Highways consultants as main contractor for highways design (£8.8m);
- **Quantum Care Ltd** – Spent on a contract for the provision of residential care home placements (£19.4m);
- **Ringway Infrastructure Services Ltd** – for the provision of highway maintenance work (£62.1m);
- **Runwood Homes Plc** – Contracted for the provision of residential care home placements (£5.8m);
- **Serco Plc** – The payments to SERCO Plc are for the provision of a range of support services and customer services as per the Core Shared Managed Services contract and for the provision of Social Care Access & Telecare; (£27.3m); and
- **Viridor Waste Management Ltd** – Contractors managing Lakeside and Ardley EFW (£5.5m);

## Note 6: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Resources on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events have taken place before this date, provided information about conditions existed at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no material events after the reporting date to be disclosed in these financial statements.

# Notes to the Accounts

## Note 7: Adjustment between accounting basis and funding basis under regulations

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

2016/17	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments involving the Capital Adjustment Account</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non current assets	(72,927)	-	-	72,927
Amortisation of intangible assets	(715)	-	-	715
Capital grants and contributions	59,082	-	-	(59,082)
Revenue expenditure funded from capital under statute	(58,038)	-	-	58,038
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(215,832)	-	-	215,832
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	22,792	-	-	(22,792)
Capital expenditure charged against the General Fund balance	21,319	-	-	(21,319)
Use of Capital Reserves (Earmarked Reserves) to finance expenditure	(65)	-	-	65
<b>Adjustments involving the Capital Grants Unapplied Account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	82,600	-	(82,600)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	72,775	(72,775)
Repayment of Grant	(14)	-	14	-
<b>Adjustment involving the Capital Receipts Reserve</b>				
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	5,519	(5,519)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	9,660	-	(9,660)
Transfer of LEP Loan repayment	-	(1,000)	-	1,000
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Transfer of deferred sale proceeds to the general fund in relation to Finance Leases	(99)	-	-	99

(table continued on next page)

# Notes to the Accounts

2016/17	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement In Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Financial Instruments</b>				
<b>Adjustment Account:</b>				
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	112	-	-	(112)
Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements	(11)	-	-	11
Soft Loans	(213)	-	-	213
<b>Adjustments involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(112,153)	-	-	112,153
Employer's pensions contributions and direct payments to pensioners payable in the year	69,898	-	-	(69,898)
<b>Adjustments involving the Collection Fund Adjustment Account</b>				
Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	3,319	-	-	(3,319)
<b>Adjustment involving the Accumulated Absences Account</b>				
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	(195)	-	-	195
<b>Total Adjustments</b>	<b>(195,624)</b>	<b>3,141</b>	<b>(9,811)</b>	<b>202,293</b>

## Notes to the Accounts

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments involving the Capital Adjustment Account</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non current assets	(40,722)	-	-	40,722
Amortisation of intangible assets	(952)	-	-	952
Capital grants and contributions	47,165	-	-	(47,165)
Revenue expenditure funded from capital under statute	(30,056)	-	-	30,056
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(219,097)	-	-	219,097
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	3,161	-	-	(3,161)
Capital expenditure charged against the General Fund balance	10,824	-	-	(10,824)
Use of Capital Reserves (Earmarked Reserves) to finance expenditure	(65)	-	-	65
<b>Adjustments involving the Capital Grants Unapplied Account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	83,462	-	(83,462)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	44,193	(44,193)
Repayment of Grant	-	-	-	-
<b>Adjustment involving the Capital Receipts Reserve</b>				
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	19,874	(19,874)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	18,119	-	(18,119)
Transfer of LEP Loan repayment	-	(10,000)	-	10,000
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Transfer of deferred sale proceeds to the general fund in relation to Finance Leases	(105)	-	-	105

(table continued on next page)

## Notes to the Accounts

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	112	-	-	(112)
Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements	8	-	-	(8)
Soft Loans	208	-	-	(208)
<b>Adjustments involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(139,685)	-	-	139,685
Employer's pensions contributions and direct payments to pensioners payable in the year	71,314	-	-	(71,314)
<b>Adjustments involving the Collection Fund Adjustment Account</b>				
Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	(2,097)	-	-	2,097
<b>Adjustment involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,633	-	-	(2,632)
<b>Total Adjustments</b>	<b>(194,018)</b>	<b>(11,755)</b>	<b>(39,269)</b>	<b>245,042</b>

# Notes to the Accounts

## Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

The following gives a short description of each reserve, with a summary table provided at the end of this note:

### School Balances

- **School Balances** – cash reserves held in schools shown as carry forward balances.
- **Strategic Area Partnership** - to finance the provision of new learning opportunities to deliver the learner entitlement for 14 to 19 year olds (now included in schools budget shares).
- **Community Focused Extended School Activities** - balances carried forward by schools relating to community focused activities.
- **Schools Budget Central Expenditure** - previous underspend against the central expenditure budgets within the Schools Budget. This will be used to finance the Council's Schools Budget in future years, in line with the requirements of the Dedicated Schools Grant.
- **ESC Balances** – cash reserves held in Education Support Centres shown as carry forward balances.

### Other Reserves

- **Academy Conversion Reserve** - to finance the planning and legal costs associated with Academy conversions as the number of schools converting escalates.
- **Adult Care Services Carry Forwards** – carry forward reserve to be used for Local Welfare Provision and Health Funding, including amounts relating to the Better Care Fund.
- **Bad Debt Reserve** – to provide for additional bad debt should this be required.
- **BSF PFI Reserve** – the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of the Building Schools for the Future project.
- **Business Rates Equalisation Reserve** – to manage volatility in council tax and business rates forecasting from District and Borough Councils.
- **Capital Financing Reserve** – created from revenue underspends, to be applied as Revenue Contributions to Capital Outlay to support future years' capital programmes.
- **Capital Receipts Spend to Release Reserve** – to be applied as Revenue Contributions to Capital Outlay to support capital spend enabling achievement of capital receipts.
- **Commuted Maintenance** – sums secured in year through the development of legal agreements to fund maintenance of non-standard assets in the future. A withdrawal is made on the basis of a long term plan of maintenance need. Income is added at the end of each year from negotiated settlements with contractors for new developments.
- **Corporate Carry Forwards** – this relates to the carry forward of agreed budgets relating to specific projects planned for 2017/18 but now expected to complete in 2018/19.
- **Corporate Managed Properties** – monies carried forward to be used for maintenance on shared managed properties.
- **County Council Elections** – to meet the cost of County Council elections held every 4 years.
- **Cuffley Camp Reserve** – to cover costs arising following termination of lease at Cuffley Camp. Costs remain in line with expectations, but some are now expected to fall in 2018/19.

## Notes to the Accounts

- **East Coast & Humberside Control Room Consortium** – Hertfordshire has taken over as the lead authority of the East Coast and Humberside Control Room Consortium from Humberside. The Consortium is comprised of 4 authorities (Hertfordshire, Humberside, Norfolk and Lincolnshire) and was set up to improve the resilience and efficiency of the control rooms of each authority. The consortium is funded by a Ministry of Housing, Communities & Local Government (MHCLG) grant and Humberside have transferred the balance of the grant which will be held on a reserve to fund the Consortium going forward.
- **Economic Growth Fund** – Hertfordshire County Council has set aside 32% of its share of the Business Rates Pool gain (8% of the total Net Retained Levy) in an Economic Growth Fund, to be allocated to projects and initiatives that support economic development and the growth of the NNDR taxbase in Hertfordshire.
- **Education & Early Intervention Reserve** - to be used for education, support and intervention in Schools, Learning Centres, alternative education and recreation settings.
- **Education Support Reserve** – to support improved educational outcomes in schools.
- **Flood and Water Management** – funds set aside to support the new sustainable urban drainage responsibility.
- **General Contingency Reserve** – reserve held to address known issues that have arisen during 2017/18 but which could not be immediately resolved within the year.
- **Hadham Towers Restoration** – to provide for essential restoration work to return the former Hadham Towers Waste Disposal site to its original use as agricultural land.
- **Hertfordshire Safeguarding Adults Board** – partner contributions held to fund additional expenditure/meet any future shortfalls.
- **Herts Music Service - Music Donations** – this fund comprises of legacy donations to the Music Service held in practice on trust for the purposes for which it was donated, namely to support Music Centres across the County.
- **Innovation Fund (Children's Services)** – this reserve will be used to fund both phase 1 and phase 2 of the Family Safeguarding (Innovation Fund) project.
- **Invest to Transform** – reserve set aside to support innovative projects across the Council that will underpin service transformation and deliver future efficiencies.
- **LAMS Reserve** - holds funds set aside to support the Council's participation in the LAMS scheme which facilitates mortgage lending to eligible Hertfordshire residents. As the scheme is now closed, these funds have been redesignated to support the Property Development Programme.
- **Local Enterprise Partnership (LEP) Capital Reserves** – these funds are set aside to support the Local Enterprise Partnership infrastructure initiative, providing funding for schemes to develop Hertfordshire's economy and infrastructure. The purpose of the reserve is to act as loan fund against infrastructure.
- **Local Enterprise Partnership (LEP) Revenue Reserves** – These funds have been set aside to generate economic activity by local enterprise partnerships. They also support the operating costs of the LEP.
- **Members Highway Locality Reserve** - funding for Member prioritised highway spending.
- **MMI Reserve** - a specific reserve set up in recognition of the increased risk relating to the Municipal Mutual Insurance contingent liability.
- **Nobel Lifecycle fund** – reserve set up to be used over the next 10 years to fund future obligations for lifecycle works as they become required.

## Notes to the Accounts

- **Planning Delivery Grant** – reserve held for the installation of a new development management IT system.
- **Private Finance Initiative (PFI) Equalisation Reserve** – the reserve represents the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of young persons' homes and family centres.
- **Proceeds of Crimes Act (POCA) Receipts** - Proceeds of Crimes Act held by the Council in respect of ongoing trading standards and Serious and Organised Crime Agency (SOCA) court cases, to be spent on Community Protection activities.
- **Public Health** – carry forward reserve to support Public Health against risks of the cost of new mandated drugs and health epidemics.
- **Revenue Budget Support 2016/17** – to support the 2016/17 revenue budget.
- **Safeguarding & Specialist Services** - to be used to finance safeguarding vulnerable children.
- **Salix** - to meet capital costs of energy conservation works; replenished by repayment of a proportion of ongoing savings.
- **Self-Insurance Reserve** - a reserve to cover for uninsured liabilities in respect of employer's liability, third party insurance and potential costs incurred as a result of storm damage.
- **SEND Reform Grant** – a reserve created from grant funding received to support the transition from statements of SEN to combined Education, Health & Care (EHC) Plans.
- **Shared Anti-Fraud Service (SAFS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.
- **Shared Internal Audit Service (SIAS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.
- **Spatial Planning Reserve** - to fund development of strategic spatial framework for the County and in particular, support the outcomes from the "Devo" discussions which are specifically examining joint working on planning and infrastructure issues. There is also a need to use this reserve to fund transport strategy work to support the next round of transport infrastructure bids to the LEP's Strategic Growth Fund.
- **Statutory Planning Authority Inquiries** – to meet costs associated with attending public inquiries as the Statutory Planning Authority, which vary significantly between years and the public examination of local plans. The next one of these will be the Minerals Local Plan in 2017/18.
- **Thriving Families Reserve** – relates to grant monies for Thriving Families, a multi-year programme which has recently been extended by central government.
- **Transition Reserve** – to support the management of the identified savings gap between 2019/20 and 2021/22, recognising the risk to the Council of the implementation of a new local government financing model.
- **Waste PFI Reserve** – set up to deal with a range of risks which could result from the project dealing with the long term treatment of residual waste.
- **Watford Music Service** – this fund (a requirement of the agreement with Watford Grammar School for Boys), is held against future liabilities for this Music Centre.
- **Week 53 Reserve** - to provide payment to contractor as per an agreed schedule. The annual schedule is payment for exactly 52 weeks over any given year. Every six or seventh year the schedule has to increase to 53 weeks and an annual contribution is made to the reserve to cover this.

# Notes to the Accounts

Balance at 1 April 2016	Transfers out 2016/17	Transfers in 2016/17	Net Transfers during 2016/17	Balance at 31 March 2017		Capital (C) or Revenue (R)	Balance at 1 April 2017	Transfers out 2017/18	Transfers in 2017/18	Net Transfers during 2017/18	Balance at 31 March 2018
£000s	£000s	£000s	£000s	£000s			£000s	£000s	£000s	£000s	£000s
(60,963)	64,272	(62,091)	2,181	(58,783)	Schools Balances	R	(58,783)	61,791	(64,531)	(2,741)	(61,523)
(298)	104	-	104	(194)	Strategic Area Partnership	R	(194)	193	-	193	-
(1,058)	212	-	212	(846)	Community Focused Extended School Activities	R	(846)	434	-	434	(412)
(22,013)	10,814	(10,090)	724	(21,289)	Schools Budget Central Expenditure	R	(21,289)	8,560	(10,605)	(2,045)	(23,334)
(1,910)	1,919	(1,740)	178	(1,731)	ESC Balances	R	(1,731)	1,738	(1,523)	215	(1,516)
(86,241)	77,320	(73,922)	3,399	(82,842)	<b>Balances held by schools under a scheme of delegation</b>	-	(82,842)	72,717	(76,660)	(3,943)	(86,785)
(1,000)	-	-	-	(1,000)	Academy Conversion Reserve	R	(1,000)	-	-	-	(1,000)
(1,993)	1,993	(472)	1,521	(472)	Adult Care Services Carryforwards	R	(472)	472	(6,154)	(5,682)	(6,154)
-	-	-	-	-	Adult Care Services Grant Carryforwards	R	-	-	(1,115)	(1,115)	(1,115)
-	-	-	-	-	Bad Debt Reserve	R	-	-	(2,583)	(2,583)	(2,583)
(3,174)	-	(942)	(942)	(4,116)	BSF PFI Reserve	R	(4,116)	350	(582)	(232)	(4,348)
-	-	-	-	-	Business Rates Equalisation Reserve	R	-	-	(1,103)	(1,103)	(1,103)
(3,174)	3,424	(250)	3,174	-	Capital Financing Reserve	C	-	-	(2,287)	(2,287)	(2,287)
(2,923)	2,100	-	2,100	(823)	Capital Receipts Spend to Release Reserve	R	(823)	-	-	-	(823)
(1,664)	1,272	(125)	1,147	(516)	Commuted Maintenance	R	(516)	-	(492)	(492)	(1,008)
(470)	262	(883)	(621)	(1,091)	Corporate Carry Forwards	R	(1,091)	366	(4,820)	(4,454)	(5,545)
-	-	(290)	(290)	(290)	Corporate Managed Properties	R	(290)	-	-	-	(290)
(725)	-	(290)	(290)	(1,016)	County Council Elections	R	(1,016)	1,016	(4)	1,011	(5)
-	-	-	-	-	Cuffley Camp Reserve	R	-	-	(705)	(705)	(705)
-	-	(2,896)	(2,896)	(2,896)	East Coast & Humberside Control Room Consortium	R	(2,896)	1,265	(8)	1,256	(1,640)
-	-	(190)	(190)	(190)	Economic Growth Fund	R	(190)	-	-	-	(190)
(200)	-	(90)	(90)	(290)	Education & Early Intervention Reserve	R	(290)	43	(155)	(112)	(402)
-	-	-	-	-	Education Support Reserve	R	-	-	(1,290)	(1,290)	(1,290)
(160)	160	(159)	1	(159)	Flood and Water Mgmt	R	(159)	159	-	159	-
-	-	-	-	-	General Contingency Reserve	R	-	-	(2,789)	(2,789)	(2,789)
(126)	-	-	-	(126)	Hadham Towers Restoration	R	(126)	-	-	-	(126)
(117)	-	(45)	(45)	(162)	Hertfordshire Safeguarding Adults Board	R	(162)	14	-	14	(148)

(table continued on next page)

## Notes to the Accounts

Balance at 1 April 2016	Transfers out 2016/17	Transfers in 2016/17	Net Transfers during 2016/17	Balance at 31 March 2017		Capital (C) or Revenue (R)	Balance at 1 April 2017	Transfers out 2017/18	Transfers in 2017/18	Net Transfers during 2017/18	Balance at 31 March 2018
£000s	£000s	£000s	£000s	£000s			£000s	£000s	£000s	£000s	£000s
(264)	-	-	-	(264)	Herts Music Service - Music Donations	R	(264)	-	(3)	(3)	(266)
(3,201)	2,100	(1,388)	712	(2,489)	Innovation Fund (Children's Services)	R	(2,489)	756	-	756	(1,733)
(22,094)	5,374	(4,350)	1,024	(21,070)	Invest to Transform	R	(21,070)	2,278	(2,090)	187	(20,883)
-	-	-	-	-	Investment Reserve	R	-	-	(6,300)	(6,300)	(6,300)
(2,115)	65	(184)	(119)	(2,234)	LAMS reserve	C	(2,234)	242	(111)	131	(2,103)
(5,833)	6,609	(838)	5,771	(62)	Local Enterprise Partnership (LEP) Capital Reserves	R	(62)	62	-	62	-
(1,918)	1,486	(6,493)	(5,007)	(6,925)	Local Enterprise Partnership (LEP) Revenue Reserves	R	(6,925)	485	(333)	152	(6,774)
(563)	563	(50)	513	(50)	Members Highway Locality	R	(50)	50	(321)	(271)	(321)
(816)	-	(137)	(137)	(953)	MMI Reserve	R	(953)	320	-	320	(633)
(300)	-	(59)	(59)	(358)	Nobel Lifecycle Fund	R	(358)	9	-	9	(349)
(109)	-	-	-	(109)	Planning Delivery Grant	R	(109)	58	(39)	19	(90)
(1,746)	-	(8)	(8)	(1,754)	PFI Equalisation Reserve	R	(1,754)	-	(6)	(6)	(1,760)
(317)	-	(12)	(12)	(329)	POCA Receipts	R	(329)	43	(51)	(9)	(337)
(3,700)	1,030	(1,276)	(246)	(3,946)	Public Health	R	(3,946)	578	(1,312)	(734)	(4,680)
(385)	385	-	385	-	Revenue Budget Support 2016/17	R	-	-	-	-	-
(325)	265	(282)	(17)	(342)	Safeguarding & Specialist Services	R	(342)	140	(80)	60	(282)
(40)	287	(323)	(37)	(77)	Salix	R	(77)	266	(301)	(35)	(111)
(5,489)	3,658	-	3,658	(1,832)	Self-Insurance Reserve	R	(1,832)	-	(4,819)	(4,819)	(6,651)
(839)	1,097	(746)	351	(489)	SEND Reform grant	R	(489)	519	(564)	(45)	(534)
(158)	61	-	61	(97)	Shared Anti Fraud Service (SAFS) Surplus	R	(97)	13	-	13	(84)
(82)	12	-	12	(70)	Shared Internal Audit Service (SIAS) Surplus	R	(70)	-	(7)	(7)	(77)
(111)	-	-	-	(111)	Spatial Planning Reserve	R	(111)	-	-	-	(111)
(387)	-	-	-	(387)	Statutory Planning Authority Inquiries	R	(387)	-	-	-	(387)
(667)	121	(19)	102	(565)	Thriving Families	R	(565)	19	(258)	(239)	(804)
-	-	-	-	-	Transition Reserve	R	-	-	(3,000)	(3,000)	(3,000)
(8,000)	-	-	-	(8,000)	Waste PFI reserve	C	(8,000)	-	-	-	(8,000)
(872)	-	(192)	(192)	(1,064)	Waste Week 53	R	(1,064)	-	(192)	(192)	(1,257)
(221)	-	-	-	(221)	Watford Music Service	R	(221)	-	(22)	(22)	(243)
(162,517)	109,643	(96,912)	12,732	(149,785)	<b>Total</b>		(149,785)	82,238	(120,556)	(38,318)	(188,105)

# Notes to the Accounts

## Note 9: Other Operating Expenditure

2016/17		2017/18
£000s		£000s
2,177	Levies	2,112
210,313	(Gains) / Losses on the disposal of non current assets	199,224
(4,574)	Operating expenditure and income not attributable to services	(6,139)
<b>207,917</b>	<b>Total</b>	<b>195,197</b>

The loss on the disposal of non-current assets in 2017/18 includes accounting for maintained schools converting to foundation or academy status. This has resulted in a transfer of assets by way of 125 year leases of land, property, plant and equipment relating to the conversion of maintained schools (£191.1m).

The figure for operating income not attributable to services includes £5.6m of rental income to the Council relating to properties leased out as care homes. The comparative figure for 2016/7 was £4.5m.

## Note 10: Financing and Investment Income and Expenditure

2016/17		2017/18
£000s		£000s
17,919	Interest payable and similar charges	17,622
31,532	Pensions interest cost and expected return on pensions assets	28,216
(3,249)	Interest receivable and similar income	(4,248)
(1,417)	Surplus or Deficit on Trading Operations	(792)
<b>44,785</b>	<b>Total</b>	<b>40,798</b>

## Note 11: Taxation and Non Specific Grant Income

2016/17		2017/18
£000s		£000s
(520,122)	Council Tax income	(549,462)
(114,579)	Non domestic rates	(114,732)
(224,983)	Non-ringfenced government grants	(194,907)
<b>(859,685)</b>	<b>Total</b>	<b>(859,101)</b>

# Notes to the Accounts

## Note 12: Property, Plant & Equipment and Investment Properties

### Property, Plant & Equipment – Movement on Balances

Movements in 2016/17	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in Property, Plant & Equipment £000s
<b><u>Cost or Valuation</u></b>								
<b>At 1 April 2016</b>	<b>2,254,542</b>	<b>52,890</b>	<b>916,637</b>	<b>-</b>	<b>135,711</b>	<b>4,100</b>	<b>3,363,881</b>	<b>65,848</b>
Additions	53,233	9,666	62,673	-	2,647	11,262	139,481	-
Donations	-	-	-	-	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	44,850	-	-	-	25,116	-	69,966	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	(15,893)	-	-	-	(1,283)	-	(17,176)	-
Derecognition - Disposals	(208,199)	(11,497)	-	-	(897)	-	(220,593)	-
Derecognition – Other	(1,066)	-	-	-	-	-	(1,066)	-
Assets reclassified (to) / from Held for Sale	(60)	-	-	-	(36,364)	-	(36,424)	-
Other movements in Cost or Valuation	(1,154)	921	-	-	2,073	(1,839)	-	-
<b>At 31 March 2017</b>	<b>2,126,253</b>	<b>51,979</b>	<b>979,310</b>	<b>-</b>	<b>127,004</b>	<b>13,523</b>	<b>3,298,069</b>	<b>65,848</b>
<b><u>Accumulated Depreciation and Impairment</u></b>								
<b>At 1 April 2016</b>	<b>(21,278)</b>	<b>(24,553)</b>	<b>(250,999)</b>	<b>-</b>	<b>(253)</b>	<b>-</b>	<b>(297,082)</b>	<b>(46)</b>
Depreciation Charge	(30,966)	(12,055)	(26,540)	-	(549)	-	(70,110)	(2,329)
Depreciation written out to the Revaluation Reserve	11,658	-	-	-	273	-	11,931	-
Depreciation written out to the Surplus / Deficit on the Provision of Service	14,200	-	-	-	186	-	14,386	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - Disposals	1	10,258	-	-	7	-	10,265	-
Derecognition – Other	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-
Other movements in Depreciation and Impairments	(1)	-	-	-	1	-	-	-
<b>At 31 March 2017</b>	<b>(26,385)</b>	<b>(26,351)</b>	<b>(277,539)</b>	<b>-</b>	<b>(334)</b>	<b>-</b>	<b>(330,609)</b>	<b>(2,375)</b>
<b><u>Net Book Value</u></b>								
<b>At 31 March 2016</b>	<b>2,233,264</b>	<b>28,337</b>	<b>665,638</b>	<b>-</b>	<b>135,458</b>	<b>4,100</b>	<b>3,066,799</b>	<b>65,802</b>
<b>At 31 March 2017</b>	<b>2,099,868</b>	<b>25,628</b>	<b>701,771</b>	<b>-</b>	<b>126,670</b>	<b>13,523</b>	<b>2,967,460</b>	<b>63,473</b>

# Notes to the Accounts

Movements in 2017/18	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in Property, Plant & Equipment £000s
<b><u>Cost or Valuation</u></b>								
<b>At 1 April 2017</b>	<b>2,126,256</b>	<b>51,979</b>	<b>979,310</b>	<b>-</b>	<b>127,004</b>	<b>13,523</b>	<b>3,298,072</b>	<b>65,848</b>
Additions	27,367	8,705	68,552	-	10,459	4,498	119,581	-
Donations	-	-	-	-	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	13,523	-	-	-	41,556	-	55,078	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	9,318	-	-	-	4,150	-	13,468	-
Derecognition - Disposals	(192,849)	(12,039)	-	-	(988)	-	(205,875)	-
Derecognition – Other	(916)	(1,446)	-	-	(8)	-	(2,371)	-
Assets reclassified (to) / from Held for Sale	(625)	-	-	-	(50)	-	(675)	-
Other movements in Cost or Valuation	1,556	6,095	-	-	8,043	(16,466)	(772)	-
<b>At 31 March 2018</b>	<b>1,983,890</b>	<b>53,293</b>	<b>1,047,862</b>	<b>-</b>	<b>190,165</b>	<b>1,556</b>	<b>3,276,506</b>	<b>65,848</b>
<b><u>Accumulated Depreciation and Impairment</u></b>								
<b>At 1 April 2017</b>	<b>(26,386)</b>	<b>(26,350)</b>	<b>(277,539)</b>	<b>-</b>	<b>(334)</b>	<b>-</b>	<b>(330,610)</b>	<b>(2,375)</b>
Depreciation Charge	(28,696)	(11,408)	(28,086)	-	(670)	-	(68,860)	(2,582)
Depreciation written out to the Revaluation Reserve	10,785	-	-	-	239	-	11,023	-
Depreciation written out to the Surplus / Deficit on the Provision of Service	15,365	-	-	-	105	-	15,470	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - Disposals	4	11,311	-	-	-	-	11,315	-
Derecognition – Other	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-
Other movements in Depreciation and Impairments	(4)	-	-	-	4	-	-	-
<b>At 31 March 2018</b>	<b>(28,934)</b>	<b>(26,447)</b>	<b>(305,625)</b>	<b>-</b>	<b>(656)</b>	<b>-</b>	<b>(361,661)</b>	<b>(4,957)</b>
<b><u>Net Book Value</u></b>								
<b>At 31 March 2017</b>	<b>2,099,870</b>	<b>25,628</b>	<b>701,771</b>	<b>-</b>	<b>126,670</b>	<b>13,523</b>	<b>2,967,462</b>	<b>63,473</b>
<b>At 31 March 2018</b>	<b>1,954,956</b>	<b>26,846</b>	<b>742,237</b>	<b>-</b>	<b>189,509</b>	<b>1,556</b>	<b>2,914,845</b>	<b>60,891</b>

# Notes to the Accounts

## Capital Commitments

The value of material contracts to which the Council is committed to as at the 31st March 2018 is estimated at £36.116m (£22.877m in 2016/17). For the purposes of this note a commitment is considered material if it exceeds a value of £500,000.

Description	£000s
Schools - Secondary Development Agreements	9,962
Schools - other improvement works	6,023
Carriageway works	16,898
Footway works	754
Other Highways Works	1,883
Structures	597
<b>Total</b>	<b>36,116</b>

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations were carried out by an external valuer, Roger Firth, a Fellow of the Royal Institution of Chartered Surveyors (FRICS), in his capacity as an Associate Director of Lambert Smith Hampton, and Philip Brawn (FRICS) also of Lambert Smith Hampton. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Assets are then carried in the balance sheet using the following measurement basis:

Type of Asset	Basis of Valuation
Infrastructure Community Assets Assets Under Construction	Depreciated historical cost
Other Land & Buildings	Current value based on existing use value (EUV). Depreciated replacement cost (DRC) if EUV cannot be determined
Vehicles, Plant, Equipment and Furniture	Depreciated historical cost as a proxy for fair value, where assets have short useful lives
Surplus Assets	Fair value based on highest and best use value
Investment Property Assets Held For Sale	Market value

# Notes to the Accounts

There have been no significant assumptions applied in estimating the fair values, which are:

## 5 year revaluation table

	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in Property, Plant and Equipment £000s
<u>Valued at Historic Cost</u>	-	26,846	742,238	-	-	1,556	770,640	2,604
<u>Valued at Current Value in:</u>								
2014/15	19,960	-	-	-	767	-	20,727	13,846
2015/16	681,560	-	-	-	43,732	-	725,292	44,441
2016/17	626,608	-	-	-	17,870	-	644,478	-
2017/18	626,568	-	-	-	127,140	-	753,708	-
<b>Grand Total</b>	<b>1,954,696</b>	<b>26,846</b>	<b>742,238</b>	<b>-</b>	<b>189,509</b>	<b>1,556</b>	<b>2,914,845</b>	<b>60,891</b>

## Disposals

Disposals include assets transferred to schools that have converted to academy status, where a 125 year lease is granted.

## Investment Properties

There are currently no assets held as Investment Properties by the Council.

## Surplus Assets

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

31 March 2018			
Level 1	Level 2	Level 3	Fair Value
Quoted Prices in active market for identical assets	Observable inputs for the asset	Unobservable inputs for the asset	
£000s	£000s	£000s	£000s
-	-	189,509	189,509
-	-	<b>189,509</b>	<b>189,509</b>

# Notes to the Accounts

## Note 13: Heritage Assets

During 2017/18, an exercise was undertaken by the Council's valuers which resulted in a revaluation loss of £0.483m recognised in year.

Asset values are as shown in the summary of transactions below.

	Paintings £'000s	Artefacts £'000s	Sculptures £'000s	Total Assets £'000s
<b>Cost or valuation</b>				
1 April 2016	1,879	87	25,522	27,488
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations	-	-	5,550	5,550
Impairments	-	-	-	-
<b>31 March 2017</b>	<b>1,879</b>	<b>87</b>	<b>31,072</b>	<b>33,038</b>
<b>Cost or valuation</b>				
1 April 2017	1,879	87	31,072	33,038
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations	28	-	(512)	(483)
Impairments	-	-	-	-
<b>31 March 2018</b>	<b>1,908</b>	<b>87</b>	<b>30,560</b>	<b>32,555</b>

### Paintings

The Council's external valuer for its art work, Townley Valuation Services (TVS), carried out a valuation exercise of material items within the collection of paintings as at 31 March 2018, and has confirmed that there has been an increase in market values of £28k. The valuations were based on TVS inspecting our documented records and our photographic archive, and undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

During the year none of the paintings was deemed to have suffered major damage requiring write down to be charged to the Comprehensive Income and Expenditure Statement.

### Art Collection

The collection consists of nearly 1,700 paintings, posters and sketches which are displayed in County Hall, other Council properties, libraries, schools, development centres, elderly persons homes and on loan to museums. Key paintings within this art collection are: -

- Philip Mercier, Portrait of Frederick Lewis, Prince of Wales valued at £100,000;
- Philip Mercier, Portrait of Princess Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Amelia, Daughter of King George II and Queen Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Anne, Daughter of King George II and Queen Caroline valued at £80,000;
- Ceri Richards, Matisse valued at £60,000;
- Anne Redpath, The Blue Plate valued at £50,000;
- Sir Thomas Lawrence, Portrait of William Plummer valued at £50,000 (increase of £15,000);
- Circle of Jean Baptiste van Loo, Portrait of Queen Caroline valued at £40,000;

## Notes to the Accounts

- Charles Jervas, Portrait of King George II, standing full length valued at £40,000;
- John Tunnard, Brandis valued at £35,000;
- Richard Westall, The Shepherd in a Storm valued at £35,000 (increase of £10,000);
- Frances Hodgkins, Still Life with Vase and Eggs valued at £32,000.

### Sculptures

The Council's collection of sculptures is reported in the Balance Sheet at insurance valuation which is based on market values. These sculptures will be revalued as part of the Council's five year revaluation programme and be subject to an annual existence check on a sample basis. The Council's external valuer for its art work Townley Valuation Services (TVS) carried out a full valuation of the collection of sculptures as at 31 March 2013 based on TVS inspecting all our documented records and our photographic archive, undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

The highest value items are reviewed annually and TVS have advised that as at 31<sup>st</sup> March 2018 insurance valuations should be decreased by £0.512m, as below:

- The stone figures of Queen Eleanor from Waltham Cross (on loan) - £3.5m (decrease of £0.5m);
- Edward Onslow Ford, bust of Sir Hubert von Herkomer– valuation £8,000 (decrease of £12,000);

### Artefacts

This contains the civic regalia including a forty inch sterling silver chain, pendants and badges associated with the position of the Chairman and Vice-Chairman, an old school door and frame and a Flemish Landscape Tapestry, probably Oudenaard, circa 1670-1690.

### Hertfordshire Archives and Local Studies (HALS)

The Hertfordshire Archives and Local Studies (HALS) consist of the Council's Record Office documents and are included as part of the Council's library assets. Whilst these may be of interest to an historian they hold no determinable value and accordingly are not reported in the balance sheet.

### Preservation and Management

The Council has not undertaken any major repairs or restoration of any of its heritage assets in 2017/18. The cost of any such repairs and restoration if incurred would be charged to the Comprehensive Income and Expenditure Statement.

The Council employs a fully qualified archive conservator for any repairs needed at HALS. Schedules of work needed are kept and are undertaken on a rolling programme. Sometimes grant funding can be acquired to help with a major conservation project e.g. from the National Manuscripts Conservation Trust. The Council employs an administrator in the Library service, who manages all issues of repairs and maintenance. These are based on an annual cycle of inspection and feedback from schools and apply to that part of the collection that is loaned to schools. The remaining collection is managed by Property, who administers a limited range of repairs and maintenance, related to investment projects or requests for intervention for support for maintenance from schools.

The County Archivist manages the archive collections held at HALS. There are various policies in existence for the management of certain types of records e.g. the County Council's archives are governed by the Council's Records Management Policy (Aug 2009 held on the Intranet) and the Retention Guidelines (also on the Intranet).

The schools loan collection is managed by the Library service with active engagements with schools. The remaining elements in the collection are managed by Property.

Acquisitions are rare and primarily made by donation. However, on rare occasions when a particularly important asset is available for purchase, the Council will undertake the purchase provided that it meets the objectives of the Council in terms of its collection of heritage assets. HALS has a formal Acquisitions Policy and additions to the

## Notes to the Accounts

other collections have only been made as part of a re-fit of head office accommodation at Stevenage. The additional pieces were approved at member level and were newly commissioned pieces from a local artist.

Assets are collated, preserved and managed in accordance with the aforementioned guidelines. The register for each collection records the nature, provenance, condition and current location of each asset.

Each individual collection at HALS has a unique Accession number which is recorded in a manual register. During 2013/14 a project was completed to transfer this information to computer using archive software (CALM), and new accessions are routinely added to this database. The other collections' registers have been made available previously and validated as part of the recent revaluation programme.

Disposals of heritage assets are not anticipated but if deemed desirable will require member approval supported by guidance from officers who hold accountability for the collections. In order to dispose of any archive held at HALS permission would have to be sought from the individual owner of the collection. Many collections owned by the Council are inalienable as grant funding was awarded in order to purchase them, making their disposal very unlikely.

### Note 14: Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. Major systems such as SAP and the Integrated Education System are normally assessed at 10 years life while PC- based software is typically assessed at 5 years. These software and web intangible assets are carried at historical cost as a proxy for current replacement costs, and are amortised on a straight-line basis. Centrally charged amortisation is absorbed as overheads across all service headings if deemed material.

The movement of intangible asset balances during the year is as follows:

2016/17			2017/18		
Software & Licences	Portal & Web Design	Total	Software & Licences	Portal & Web Design	Total
<b><u>Balance at start of year</u></b>					
6,211	63	<b>6,274</b>	-	Gross carrying amount	6,513
(2,306)	(38)	<b>(2,343)</b>	-	Accumulated amortisation	(2,976)
<b>3,905</b>	<b>25</b>	<b>3,930</b>		Net carrying amount at start of year	<b>3,537</b>
<b><u>Changes in year</u></b>					
334	-	<b>334</b>	352	Purchases	-
(703)	(13)	<b>(716)</b>	(940)	Amortisation for the period	(13)
-	-	-	772	Other changes	-
<b>3,537</b>	<b>13</b>	<b>3,550</b>		Net carrying amount at end of year	<b>3,721</b>
<b><u>Comprising:</u></b>					
6,513	63	<b>6,575</b>	-	Gross carrying amount	7,587
(2,976)	(50)	<b>(3,026)</b>	-	Accumulated amortisation	(3,865)
<b>3,537</b>	<b>13</b>	<b>3,550</b>		Net carrying amount at end of year	<b>3,721</b>

# Notes to the Accounts

## Note 15: Capital Expenditure and Capital Financing

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

2016/17		2017/18	
£000s	£000s	£000s	£000s
518,299	Opening Capital Financing Requirement	531,007	
	<b><u>Capital investment</u></b>		
139,481	Property, Plant and Equipment	119,581	
-	Investment Properties	-	
416	Loans for another body's capital expenditure	762	
-	Investments treated as capital	-	
334	Intangible Assets	352	
58,038	Revenue Expenditure Funded from Capital under Statute	30,056	
<b>198,270</b>		<b>150,750</b>	
	<b><u>Sources of finance</u></b>		
(9,660)	Capital receipts	(18,119)	
65	Capital Reserves	65	
(131,857)	Government grants and other contributions	(91,358)	
-	Sums set aside from revenue:	-	
(22,792)	Minimum Revenue Provisions	(3,161)	
(21,319)	Direct revenue contributions	(10,824)	
<b>(185,562)</b>		<b>(123,397)</b>	
<b>531,007</b>	<b>Closing Capital Financing Requirement</b>	<b>558,361</b>	
	<b><u>Explanation of movements in year:</u></b>		
35,499	Increase in the underlying need to borrow (supported by government financial assistance)	30,514	
(22,792)	Decrease in the underlying need to borrow	(3,161)	
-	Assets acquired under finance leases	-	
-	Assets acquired under PFI/PPP contracts	-	
<b>12,708</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>27,354</b>	

# Notes to the Accounts

## Note 16: Leases

### Council as Lessee

#### Finance Leases

The Council has acquired a number of vehicles and non-property assets under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2017		31 March 2018
£000s		£000s
33,699	Other Land and Buildings	33,524
28	Vehicles, Plant, Furniture and Equipment	-
<b>33,727</b>	<b>Total</b>	<b>33,524</b>

The Council is committed to making the minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2017		31 March 2018
£000s		£000s
	Finance lease liabilities (Net Present Value of minimum lease payments):	
33	– current	35
35	– non-current	-
-		-
5	Finance costs payable in future years	2
<b>73</b>	<b>Minimum Lease Payments</b>	<b>36</b>

The minimum lease payments will be payable over the following periods:

31 March 2017			31 March 2018	
Finance Lease Liabilities	Minimum Lease Payments		Finance Lease Liabilities	Minimum Lease Payments
£000s	£000s		£000s	£000s
33	36	Not later than one year	35	36
32	36	Later than one year and not later than five years	-	-
-	-	Later than five years	-	-
<b>65</b>	<b>73</b>	<b>Total</b>	<b>35</b>	<b>36</b>

# Notes to the Accounts

## Operating Leases

The Council has a number of arrangements classified as operating leases, consisting of Land & Buildings and Vehicles. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2017		31 March 2018
£000s		£000s
3,522	Not later than one year	3,898
10,038	Later than one year and not later than five years	9,518
19,966	Later than five years	21,010
<b>33,525</b>	<b>Minimum lease payments</b>	<b>34,426</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2017		31 March 2018
£000s		£000s
3,305	Land & Buildings	3,395
338	Vehicles	574
<b>3,643</b>	<b>Total</b>	<b>3,969</b>

## Council as Lessor

### Finance Leases

The Council has leased out a number of Land & Buildings assets under finance leases. These assets are derecognised from the Council's Balance Sheet.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2017		31 March 2018
£000s		£000s
	Finance lease liabilities (Net Present Value of minimum lease payments):	
105	– current	111
3,081	– non-current	2,970
8,634	Unearned finance income	8,044
2,359	Unguaranteed residual interest of property	2,359
<b>14,178</b>	<b>Gross investment in the lease</b>	<b>13,484</b>

## Notes to the Accounts

The minimum lease payments will be payable to the Council over the following periods:

31 March 2017			31 March 2018	
Gross investment in the lease	Minimum Lease Payments		Gross investment in the lease	Minimum Lease Payments
£000s	£000s		£000s	£000s
695	695	Not later than one year	695	695
2,779	2,779	Later than one year and not later than five years	2,779	2,779
10,705	8,345	Later than five years	10,010	7,651
<b>14,178</b>	<b>11,819</b>	<b>Total</b>	<b>13,484</b>	<b>11,124</b>

### Operating Leases

The Council has a number of arrangements classified as operating leases consisting of Land & Buildings. These are arrangements where Council-owned properties are leased to other organisations for a range of purposes. These include leases of land for electricity substations or communications infrastructure, leases to other public or voluntary sector organisations for use in delivery of their services or leases to private sector individuals or organisations where the land is surplus to the Council's operating requirements. The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2017		31 March 2018
£000s		£000s
6,804	Not later than one year	5,978
20,627	Later than one year and not later than five years	19,716
98,765	Later than five years	90,412
<b>126,196</b>	<b>Total</b>	<b>116,107</b>

The income credited to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2016/17		2017/18
£000s		£000s
7,221	Land & Buildings	6,804
-	Vehicles	-
<b>7,221</b>	<b>Total</b>	<b>6,804</b>

# Notes to the Accounts

## Note 17: Private Finance Initiatives (PFI) and Similar Contracts

The Code of Practice 2017/18 requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the Council, public services related to infrastructure. In addition, IFRIC 12 requires the Council to:

- Control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and to
- Control any significant residual interest, through beneficial entitlement or otherwise, in the infrastructure at the end of the term of the scheme.

### Children's Services

The Council entered into a PFI scheme in June 2007 for the design, finance and maintenance of seven new children's' homes, a family assessment centre, a disability resource centre, a children's centre and the refurbishment of five family support centres, through a private sector operator, with a facility for 25 years. The private sector operator is Young Herts and Unitary Charge payments are made monthly on invoice. The PFI scheme involved rebuilding /refurbishing existing council buildings and the operation of those centres. The units became operational at various times from 2007/08 to 2009/10. The scheme is due to end on 31 March 2033 at which stage all the assets will revert to the Council. The value of these assets (land & buildings) following revaluation as at the dates they became operational were £18.17m as at 31 March 2010. During 2010/11 a number of the homes were converted from six to seven bed units. This was a low cost change achieved by converting a staff sleep in room to a resident's room, any revenue costs as a result of this change will be minimum.

The Council's PFI obligation for the capital (finance lease) element is:

31 March 2017				31 March 2018			
Capital	Interest	Service		Capital	Interest	Service	
£000s	£000s	£000s		£000s	£000s	£000s	
636	1,032	1,265	Not later than one year	695	989	1,287	
3,024	3,660	5,439	Later than one year and not later than five years	3,191	3,455	5,696	
4,816	3,292	8,218	Later than five years and not later than ten years	4,938	2,968	8,882	
5,632	1,600	11,197	Later than ten years and not later than fifteen years	6,138	1,216	11,352	
1,491	75	2,199	Later than fifteen years and not later than twenty years	( )		-	
<b>15,599</b>	<b>9,660</b>	<b>28,317</b>	<b>Total</b>	<b>14,964</b>	<b>8,628</b>	<b>27,218</b>	

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IFRIC 12. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset.

There was a re-valuation exercise in 2014/15 as a result of which new values have been reflected in the accounts. The net book value as at 31 March 2015 was £14.743m.

## Notes to the Accounts

The outstanding liabilities to be paid to the contractors for capital expenditure incurred are as follows:

2016/17		2017/18
£000s		£000s
16,185	Balance outstanding at start of year	15,599
(586)	Payments during the year	(636)
-	- Capital expenditure incurred during the year	-
-	- Other movements	-
<b>15,599</b>	<b>Balance outstanding at end of year</b>	<b>14,963</b>

### Building Schools for the Future

This project reached Financial Close in January 2011 on a limited scheme which included Marriott's & Lonsdale Schools, with Nobel School being a design & build project financed by the Council. Whilst it was originally expected that the PFI funded schools would become operational and unitary charge payable to the operator (at that time Balfour Beatty Education) from September 2012 the actual handover date was 7 January 2013.

The scheme is still due to end on 31 August 2037 at which stage all assets will revert to the Council.

The value of the Marriott's and Lonsdale Schools (land and buildings) at the date they became operational was £43.24m

The Council's PFI obligation for the capital (finance lease) element is:

31 March 2017				31 March 2018			
Capital	Interest	Service		Capital	Interest	Service	
£000s	£000s	£000s		£000s	£000s	£000s	
827	3,737	2,128	Not later than one year	977	3,656	2,147	
4,544	14,015	8,703	Later than one year and not later than five years	4,765	13,587	9,377	
7,209	14,935	13,536	Later than five years and not later than ten years	7,801	14,250	14,303	
9,969	10,908	17,271	Later than ten years and not later than fifteen years	10,709	9,963	18,381	
15,797	5,287	19,122	Later than fifteen years and not later than twenty years	15,258	3,781	16,823	
1,991	93	1,138	Later than twenty years and not later than twenty five years	-	-	-	
<b>40,338</b>	<b>48,975</b>	<b>61,898</b>	<b>Total</b>	<b>39,510</b>	<b>45,238</b>	<b>61,030</b>	

As the schools are operational they have been recognised as assets within the balance sheet. They have initially been recognised at cost and are reflected in the assets as at 31 March 2013.

Subsequently the assets have been measured at fair value, and be kept up to date in accordance with the Councils' approach for the relevant class of asset. There was a re-valuation exercise in 2015/16 as a result of which new values have been reflected in the accounts. The net book value as at 31 March 2016 was £51.109m.

## Notes to the Accounts

The outstanding liabilities to be paid to the contractors for capital expenditure incurred are as follows:

2016/17		2017/18
£000s		£000s
41,388	Balance outstanding at start of year	40,335
(1,054)	Payments during the year	(827)
-	Other movements	-
<b>40,335</b>	<b>Balance outstanding at end of year</b>	<b>39,507</b>

### Note 18: Debtors

The following amounts were owed to the Council by third parties at financial year end.

Short-Term:

31 March 2017		31 March 2018
£000s		£000s
38,898	Central government bodies	31,475
57,679	Other local authorities	54,802
470	NHS bodies	6,491
-	Public corporations and trading funds	-
49,483	Other entities and individuals	53,314
(22,462)	Provisions for doubtful debts	(22,349)
<b>124,068</b>	<b>Total</b>	<b>123,733</b>

Long-Term:

31 March 2017		31 March 2018
£000s		£000s
-	Central government bodies	-
14,971	Other local authorities	8,809
-	NHS bodies	-
-	Public corporations and trading funds	-
19,857	Other entities and individuals	17,022
-	Provisions for doubtful debts	-
<b>34,828</b>	<b>Total</b>	<b>25,831</b>

## Notes to the Accounts

Analysis of provisions for doubtful debts:

2016/17 £000s		2017/18 £000s	
	<u>Short Term:</u>		
(22,040)	Balance at start of the year	(22,462)	
(422)	Change in general provision	113	
(22,462)	Balance at end of Year	(22,349)	
	<u>Long Term:</u>		
-	Balance at start of the year	-	
-	Change in general provision	-	
-	Balance at end of Year	-	
(22,462)	Total	(22,349)	

### Note 19: Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2017 £000s		31 March 2018 £000s	
70,496	Cash held by the Council with bank	69,284	
(7,192)	Bank current account balance / (overdraft)	(16,334)	
36,977	Short-term deposits	71,014	
100,281	Total	123,964	

The bank position is managed on a daily basis as part of the Treasury Management function, and all account balances are pooled, with any overdrawn accounts offset by cash balances on other accounts within the pooled arrangements. Short-term deposits have been classified as Cash & Cash Equivalents if the deposits have a maturity of less than 24 hours at the date of inception.

# Notes to the Accounts

## Note 20: Assets held for Sale

2016/17			2017/18		
Non-Current	Current		Non-Current	Current	
£000s	£000s		£000s	£000s	
-	1,939	<b>Balance outstanding at start of year</b>	-	33,897	
		<u>Assets newly classified as held for sale:</u>			
-	36,424	- Property, Plant and Equipment	-	675	
-	-	- Intangible Assets	-	-	
-	-	- Other assets / liabilities in disposal groups	-	-	
-	(26)	Revaluation losses	-	(800)	
-	-	Revaluation gains	-	-	
-	-	Impairment losses	-	-	
		<u>Assets declassified as held for sale:</u>			
-	-	- Property, Plant and Equipment	-	-	
-	-	- Intangible Assets	-	-	
-	-	- Other assets / liabilities in disposal groups	-	-	
-	(4,439)	Assets sold	-	(22,166)	
-	-	Transfers from non current to current	-	-	
-	-	Other movements	-	-	
-	33,897	<b>Balance outstanding at end of year</b>	-	11,606	

# Notes to the Accounts

## Note 21: Creditors

The following amounts were owed by the Council to third parties at financial year end:

### Short-Term:

31 March 2017		31 March 2018
£000s		£000s
(21,699)	Central government bodies	(22,241)
(25,795)	Other local authorities	(24,517)
(2,571)	NHS bodies	(2,789)
(12)	Public corporations and trading funds	(36)
(103,115)	Other entities and individuals	(106,772)
<b>(153,192)</b>	<b>Total</b>	<b>(156,354)</b>

### Long-Term:

31 March 2017		31 March 2018
£000s		£000s
(270)	Central government bodies	(386)
(540)	Other local authorities	(603)
-	NHS bodies	-
-	Public corporations and trading funds	-
(211)	Other entities and individuals	(256)
<b>(1,021)</b>	<b>Total</b>	<b>(1,244)</b>

## Note 22: Provisions

The following provisions have been set aside in the 2017/18 accounts to meet future expenditure where liabilities are known or expected.

	Balance at 1 April 2017	Additional provisions made in 2017/18	Amounts used in 2017/18	Unused amounts reversed in 2017/18	Unwinding of discounting in 2017/18	Balance at 31 March 2018
	£000s	£000s	£000s	£000s	£000s	£000s
Insurance Provision	(14,301)	(1,447)	3,669	2,809	-	<b>(9,269)</b>
Teachers Pension Provision	(197)	(56)	96	-	-	<b>(157)</b>
Sleep-in Provision	-	(1,338)	-	-	-	<b>(1,338)</b>
NNDR Appeals Provision	(5,785)	(2,615)	867	-	-	<b>(7,533)</b>
Municipal Mutual Insurance Provision	-	(246)	-	-	-	<b>(246)</b>
Other Liabilities	(208)	-	-	8	-	<b>(200)</b>
<b>Total</b>	<b>(20,490)</b>	<b>(5,702)</b>	<b>4,632</b>	<b>2,817</b>	<b>-</b>	<b>(18,743)</b>

# Notes to the Accounts

Expected outflow of economic benefits:

	Not later than one year	Later than one year and not later than five years	Later than five years	Total Provisions
	£000s	£000s	£000s	£000s
Insurance Provision	(5,895)	(3,373)	-	<b>(9,269)</b>
Teachers Pension Provision	(157)	-	-	<b>(157)</b>
Sleep-in Provision	(1,338)	-	-	<b>(1,338)</b>
NNDR Appeals Provision	(7,533)	-	-	<b>(7,533)</b>
Municipal Mutual Insurance Provision	(246)	-	-	<b>(246)</b>
Other Liabilities	(8)	(30)	(162)	<b>(200)</b>
<b>Total</b>	<b>(15,177)</b>	<b>(3,404)</b>	<b>(162)</b>	<b>(18,743)</b>

## Insurance Provisions

Insurance provisions have been set aside to meet known claims for which it is anticipated the Council may be liable. The Council operates insurance provisions and reserves to meet self-insured liabilities in respect of fire damage, employers and third party liability and storm damage.

## Teachers' Pension Provision

This provision is set aside for teachers not currently employed by schools, for whom pension contribution payments had not been made. These employees may have thought that they had opted-out of the scheme however this is difficult to evidence and HCC would be required to pay a back-dated contribution if this was not the case.

This provision was made as Serco undertook an audit of both active and leaver teaching records where the employee was not paying into the Teachers Pensions scheme, identifying cases of potential arrears of contributions. Whilst the initial project was resolved, TPA themselves have started a data cleansing exercise which has identified further discrepancies.

## Sleep-ins

A ruling by the Employment Appeals Tribunal in April 2017 confirmed that National Living Wage (NLW) requirements applied for sleep-in support, as the employee is required to remain at the premises regardless of whether they are awake or asleep.

HCC has complied with this ruling from 2017/18 by processing backdated payments to providers where a flat fee was paid for sleep-ins. However, a provision is set aside for providers that have not yet come forward to make a claim against the Council.

## NNDR Appeals

HCC as precepting authority discloses its share of the provision calculated by billing authorities (districts) for the estimated costs of backdated appeals on National Non Domestic Rating (NNDR) values in the ratings list. These calculations are based on the lists of outstanding appeals with the Valuation Office as at 31/3/18. Billing authorities have used local experience of the % success of appeals, adjusted where relevant for the likely outcome on the largest valuations.

## Municipal Mutual Insurance Provision

In common with most other local authorities, until 30 September 1992 the Council insured with the Municipal Mutual Insurance (MMI) Company. Following MMI's insolvency a Scheme of Arrangement was put in place, pursuant to section 425 of the Companies Act 1985, now section 899 of the Companies Act 2006. The Scheme is managed by the Scheme Administrator and overseen by the Creditors' Committee as well as MMI's regulator appointed by the

## Notes to the Accounts

Financial Conduct Authority. The Scheme of Arrangement monitors MMI's solvency and provides for a levy to be imposed on all the Scheme Creditors in the event funds are required to pay for outstanding claims.

On 13 November 2012, the Scheme was triggered by the Directors of MMI as they could no longer foresee a solvent run-off for the payment of outstanding claims. This resulted in the imposition of a levy on all Scheme Creditors that have had claims paid since inception of the Scheme of Arrangement. This first levy of 15% amounting to £705,000 was issued on 1 January 2014 based on claims valued at £4.7m (less £50,000 retention). In recognition of a contingent liability for any future claims a reserve of £1.3m has been maintained to cover further levy payments required. There has been and still remains uncertainty about the total level of a levy, with the reserve holding sufficient to cover the worst case scenario.

### Other Provisions

HCC has been required to set aside funds to make certain pension payments following a decision by the Pension's Ombudsman. The value of this provision will be assessed on an ongoing basis as part of the triennial valuation of pension liabilities. The outflow of funds represents pension payments made.

### Note 23: Usable Reserves

The following balances were held in usable reserves at year end:

31 March 2017		31 March 2018
£000s		£000s
(149,785)	Earmarked Reserves (see note 8)	(188,105)
(500)	Capital Receipts Reserve	(12,255)
(72,174)	Capital Grants Unapplied	(111,443)
(31,809)	General Fund	(31,497)
<b>(254,268)</b>	<b>Total</b>	<b>(343,300)</b>

### Capital Receipts Reserve

The Capital Receipts Reserve represents the capital receipts available to either repay external debt or finance capital expenditure.

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>(3,641)</b>		<b>(500)</b>
	<b>Balance at 1 April</b>		
(5,519)	Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(19,874)	
9,660	Use of the Capital Receipts Reserve to finance new capital expenditure	18,119	
(1,000)	Loan Repayments	(10,000)	
	<b>3,141</b>		<b>(11,755)</b>
	<b>(500)</b>		<b>(12,255)</b>
	<b>Balance at 31 March</b>		

# Notes to the Accounts

## Capital Grants Unapplied

Capital Grants Unapplied is the balance of grants and other contributions received but not yet applied to capital expenditure where there is no requirement to repay if conditions attached to the funding are not met. Where grants and contributions do have repayment conditions, the funds are held as a creditor balance in Capital Grants Received in Advance (see note 38). The total balance held in Grants Unapplied and Received in Advance was £158.5m at 31 March 2018.

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>(62,363)</b>		<b>(72,174)</b>
	<b>Balance at 1 April</b>		
(82,184)	Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(83,607)	
(417)	Capital grants and contributions transferred to Capital Grants unapplied and credited to the Comprehensive Income and Expenditure Statement	(3)	
1	Capital grants and contributions transferred from Capital Grants unapplied and credited/debited to the Comprehensive Income and Expenditure Statement	148	
72,775	Application of grants to capital financing transferred to the Capital Adjustment Account	44,193	
14	Repayments of grants	-	
	<b>(9,811)</b>		<b>(39,269)</b>
	<b>(72,173)</b>		<b>(111,443)</b>
	<b>Balance at 31 March</b>		

## Note 24: Unusable Reserves

The following balances were held in unusable reserves at year end:

31 March 2017		31 March 2018	
£000s		£000s	
(664,922)	Revaluation Reserve	(666,315)	
(575)	Available for Sale Financial Instruments Reserve	(4,360)	
(1,860,367)	Capital Adjustment Account	(1,747,162)	
4,193	Financial Instruments Adjustment Account	3,865	
1,066,299	Pensions Reserve	1,030,918	
(5,545)	Deferred Capital Receipts Reserve	(5,440)	
(14,082)	Collection Fund Adjustment Account	(11,985)	
16,419	Accumulating Compensated Absences Adjustment Account	13,787	
<b>(1,458,580)</b>	<b>Total</b>	<b>(1,386,692)</b>	

# Notes to the Accounts

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. The balance is reduced when assets with accumulated gains are:

- Revalued 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 any gains are realised.

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

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>(617,260)</b>		<b>(664,922)</b>
	<b>Balance at 1 April</b>		
(104,722)	Upward revaluation of assets	(87,087)	
17,275	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	21,469	
	<b>Surplus of Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services</b>		<b>(65,618)</b>
	<b>(87,447)</b>		
5,355	Difference between fair value depreciation and historical cost depreciation	5,760	
34,429	Accumulated gains on assets sold or scrapped	58,466	
	<b>39,784</b>		<b>64,226</b>
	<b>Amount written off to the Capital Adjustment Account</b>		
	<b>(664,922)</b>		<b>(666,315)</b>
	<b>Balance at 31 March</b>		

## Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains any gains or losses made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

While some of the Council's Available for Sale financial instruments are held in fixed value units (Constant Net Asset Value MMFs), two investments in 2017/18 were held in MMFs with variable net asset and six investments in 2017/18 were held in pooled funds covering a number of asset classes which also have variable capital asset values. These funds with variable capital values are revalued as at 31st March 2018 to their market value.

These funds with variable capital values are revalued as at 31 March 2018 to their market value.

31 March 2017		31 March 2018	
£000s		£000s	
<b>423</b>	<b>Balance at 1 April</b>	<b>(575)</b>	
(998)	Revaluations [ (increase) / decrease ] of Available for Sale Financial Instruments	(3,784)	
<b>(575)</b>	<b>Balance at 31 March</b>	<b>(4,360)</b>	

# Notes to the Accounts

## 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 Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>(1,983,533)</b>		<b>(1,860,367)</b>
	<b>Opening Balance at 1 April</b>		
	<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
70,110	- Charges for depreciation and impairment of non-current assets	68,860	
2,817	- Revaluation losses on Property, Plant and Equipment	(28,138)	
715	- Amortisation of intangible assets	952	
58,038	- Revenue expenditure funded from capital under statute	30,056	
215,832	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	219,097	
(39,784)	Adjusting amounts written out of the Revaluation Reserve	(64,226)	
	<b>307,728</b>		<b>226,601</b>
	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		
	<u>Capital financing applied in the year:</u>		
(9,660)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(18,119)	
1,000	- Transfer of LEP Loan repayment	10,000	
65	- Use of the Capital Reserve to finance new capital expenditure	65	
(59,082)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(47,165)	
(72,775)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(44,193)	
(22,792)	- Statutory provision for the financing of capital investment charged against the General Fund	(3,161)	
(21,319)	- Capital expenditure charged against the General Fund	(10,824)	
	<b>(184,562)</b>		<b>(113,397)</b>
	<b>(1,860,367)</b>		<b>(1,747,163)</b>
	<b>Balance at 31 March</b>		

# Notes to the Accounts

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment 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. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>4,081</b>		<b>4,193</b>
	<b>Balance at 1 April</b>		
(112)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(112)	
11	Adjustment for Equivalent Interest Rate on finance costs, in accordance with statutory requirements	(8)	
213	Soft Loans	(208)	
	<b>112</b>		<b>(328)</b>
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		
	<b>4,193</b>		<b>3,865</b>
	<b>Balance at 31 March</b>		

## Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016/17		2017/18	
£000s	£000s	£000s	£000s
<b>895,868</b>	<b>Balance at 1 April</b>	<b>1,066,299</b>	
128,176	Actuarial (gains) or losses on pensions assets and liabilities benefits debited or credited to the Comprehensive Income and Expenditure Statement	(103,752)	
112,153	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	139,685	
(69,898)	Employer's pensions contributions and direct payments to pensioners payable in the year	(71,314)	
<b>1,066,299</b>	<b>Balance at 31 March</b>	<b>1,030,918</b>	

# Notes to the Accounts

## 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, except in the case of finance leases where amounts are transferred to the General Fund.

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>(5,644)</b>		<b>(5,545)</b>
	<b>Balance at 1 April</b>		
-	Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-	
99	Transfer to General Fund upon receipt of cash	105	
	<b>99</b>		<b>105</b>
	<b>(5,545)</b>		<b>(5,440)</b>
	<b>Balance at 31 March</b>		

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and National Non Domestic Rates (NNDR) income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business ratepayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

### Council Tax

2016/17		2017/18	
£000s		£000s	
<b>(14,611)</b>	<b>Balance at 1 April</b>	<b>(15,903)</b>	
(1,292)	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3,254	
<b>(15,903)</b>	<b>Balance at 31 March</b>	<b>(12,649)</b>	

### NNDR

2016/17		2017/18	
£000s		£000s	
<b>3,848</b>	<b>Balance at 1 April</b>	<b>1,821</b>	
(2,027)	Amount by which business rates (NNDR) income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	(1,157)	
<b>1,821</b>	<b>Balance at 31 March</b>	<b>664</b>	

# Notes to the Accounts

## Accumulated Absences Account

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

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>16,224</b>		<b>16,419</b>
	<b>Balance at 1 April</b>		
(16,224)	Settlement or cancellation of accrual made at the end of the preceding year	(16,419)	
16,419	Amounts accrued at the end of the current year	13,787	
	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		<b>(2,632)</b>
	<b>195</b>		
	<b>16,419</b>		<b>13,787</b>
	<b>Balance at 31 March</b>		

## Note 25: Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following interest related items, in addition to operating costs:

2016/17		2017/18
£000s		£000s
3,268	Interest received	4,372
(16,019)	Interest paid	(14,902)
-	Dividends paid	750

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2016/17		2017/18
£000s		£000s
70,110	Depreciation	68,860
2,817	Impairment and downward valuations	(28,138)
715	Amortisation	952
-	(Increase)/decrease in impairment for bad debts	-
10,998	(Increase)/decrease in creditors	6,460
(21,429)	(Increase)/decrease in debtors	12,600
(408)	(Increase)/decrease in inventories	(270)
42,255	Movement in pension liability	68,371
215,832	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	219,097
(265)	Other non-cash items charged to the net surplus or deficit on the provision of services	(4,329)
	<b>320,626</b>	<b>343,603</b>

## Notes to the Accounts

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2016/17		2017/18
£000s		£000s
(2,325)	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(138)
(5,519)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(19,874)
(141,681)	Any other items for which the cash effects are investing or financing cash flows	(130,627)
<b>(149,526)</b>		<b>(150,639)</b>

### Note 26: Cash Flow Statement – Investing Activities

2016/17		2017/18
£000s		£000s
(140,560)	Purchase of property, plant and equipment, investment property and intangible assets	(120,121)
(3,050)	Purchase of short-term and long-term investments	(5,070)
402	Other payments for investing activities	(2,973)
5,420	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	19,769
2,335	Proceeds from short-term and long-term investments	995
152,339	Other receipts from investing activities	128,825
<b>16,886</b>	<b>Net cash flows from investing activities</b>	<b>21,425</b>

### Note 27: Cash Flow Statements – Financing Activities

2016/17		2017/18
£000s		£000s
30,000	Cash receipts of short- and long-term borrowing	-
-	Other receipts from financing activities	-
(1,670)	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	(1,496)
(2,927)	Repayments of short- and long-term borrowing	(32,950)
(456)	Other payments for financing activities	(248)
<b>24,947</b>	<b>Net cash flows from financing activities</b>	<b>(34,694)</b>

# Notes to the Accounts

## Note 28: Notes to the Expenditure and Funding Analysis

### 28a: Adjustments between Funding and Accounting Basis

The Expenditure and Funding Analysis contains an analysis of the adjustments required to the amounts chargeable to the General Fund, in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The major adjustments are explained below:

2016/17	Adjustments for Capital Purposes £000s	Net Change for the Pensions Adjustments £000s	Other Adjustments £000s	Total Adjustments £000s
Adult Care Services	3,168	2,321	123	5,613
Central Items	10	795	(4)	801
Children's Services	52,074	5,636	42	57,752
Community Protection	1,993	7,111	71	9,175
Environment	28,083	535	(136)	28,482
Public Health	687	72	(7)	752
Resources	7,375	1,168	99	8,642
<b>Net Cost of Services</b>	<b>93,390</b>	<b>17,637</b>	<b>188</b>	<b>111,215</b>
Other Income and Expenditure	62,990	24,618	(3,200)	84,409
<b>Surplus or Deficit</b>	<b>156,380</b>	<b>42,255</b>	<b>(3,011)</b>	<b>195,624</b>

2017/18	Adjustments for Capital Purposes £000s	Net Change for the Pensions Adjustments £000s	Other Adjustments £000s	Total Adjustments £000s
Adult Care Services	2,864	6,158	17	9,038
Central Items	19	701	-	720
Children's Services	10,459	26,029	(2,674)	33,815
Community Protection	2,273	7,749	(11)	10,011
Environment	26,912	1,866	11	28,790
Public Health	-	221	7	227
Resources	9,455	4,844	26	14,325
<b>Net Cost of Services</b>	<b>51,982</b>	<b>47,568</b>	<b>(2,624)</b>	<b>96,925</b>
Other Income and Expenditure	74,530	20,803	1,760	97,093
<b>Surplus or Deficit</b>	<b>126,511</b>	<b>68,371</b>	<b>(864)</b>	<b>194,018</b>

Further details about these adjustments are shown below:

- Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for the following items in Other Income & Expenditure:
  - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

## Notes to the Accounts

- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- Net change for the pensions adjustments – this column reflects the removal of pensions contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
  - For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
  - For Financing and investment income and expenditure — the net interest on the defined benefit liability is charged to the CIES.
- Other adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
  - For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
  - The charge under Taxation and non-specific grant income and expenditure represents the difference between the amount that is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

### 28b: Segmental Expenditure and Income

Revenue from external customers is analysed on a segmental basis below. This is the only material category of income or spend in column 1 of the EFA required to be disclosed separately.

2016/17		2017/18
Revenue from external customers £000s		Revenue from external customers £000s
(51,854)	Adult Care Services	(56,524)
-	- Central Items	-
(71,357)	Children's Services	(67,939)
(1,744)	Community Protection	(1,737)
(12,986)	Environment	(11,719)
(189)	Public Health	(91)
(21,084)	Resources	(19,225)
<b>(159,215)</b>	<b>Total Analysed on a Segmental Basis</b>	<b>(157,234)</b>

# Notes to the Accounts

## Note 29: Expenditure and Income Analysed by Nature

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

	2016/17	2017/18
	£000s	£000s
Employee Benefits Expense	738,100	779,558
Depreciation, amortisation and impairment (capital charges)	73,642	41,674
Interest Payments	17,919	17,633
Precepts & Levies	2,177	2,112
Gain/Loss on disposal of non-current assets	210,313	199,224
Other service expenses	996,365	971,131
<b>Total Expenditure (A)</b>	<b>2,038,517</b>	<b>2,011,331</b>
Fees, charges and other service income	(243,504)	(239,775)
Government grants and other contributions	(948,403)	(947,095)
Income from Council Tax and Business Rates	(634,702)	(664,194)
Interest & investment income	(3,249)	(4,256)
<b>Total Income (B)</b>	<b>(1,829,858)</b>	<b>(1,855,320)</b>
<b>Net Expenditure (A + B)</b>	<b>208,659</b>	<b>156,011</b>

## Note 30: Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. The following were active trading operations in 2017/18:

### Hertfordshire Business Services (HBS)

HBS offers a professional purchasing, supply and contract management service to the Council and other customers. HBS is a leading member of the Central Buying Consortium consisting of 17 local authorities and negotiates both joint and Council specific contracts.

### Hertfordshire Reprographics

Hertfordshire Reprographics is the Council's in-house print unit. It provides a range of reprographic services including printing, fast print, plan print and photocopying.

2016/17		2017/18	
£000s	£000s	£000s	£000s
(34,958)	Turnover for Hertfordshire Business Services (HBS)	(36,097)	
33,506	Expenditure for Hertfordshire Business Services (HBS)	35,304	
	<b>(Surplus) / Deficit for Hertfordshire Business Services</b>		<b>(793)</b>
(1,057)	Turnover for Hertfordshire Reprographics	(966)	
1,092	Expenditure for Hertfordshire Reprographics	967	
	<b>(Surplus) / Deficit for Hertfordshire Reprographics</b>		<b>1</b>
<b>35</b>			
<b>(1,417)</b>	<b>Net Surplus on trading operations</b>		<b>(792)</b>

# Notes to the Accounts

## Note 31: Agency Services

### Services on behalf of CCGs

The Joint Commissioning Partnership Board was established in 2002 by the Primary Care Trusts (PCTs) in Hertfordshire and Hertfordshire County Council in order to implement and direct joint commissioning for Health and Social Care services. From April 2013, PCT functions have been taken over by Clinical Commissioning Groups (CCG's) and by NHS England. As a result of this reorganisation, agency spend has reduced as responsibility for some specialist functions, including secure services, has transferred to NHS England.

Most of these services are within a Pooled Budget arrangement and HCC only accounts for their contributions in respect of these arrangements (see note 32). However some services are provided where the funding is not pooled because pooling of funding leads to the sharing of risk, and in some areas it is considered that the risk (e.g. in terms of level of funding required) should lie exclusively with one party.

The entries relating to agency services, which are net nil in the Comprehensive Income and Expenditure table, are detailed below:

2016/17 £000s	2017/18 £000s
11,336 Expenditure incurred on behalf of CCGs / NHS England	11,677
(11,336) Expenditure recovered from CCGs / NHS England	(11,677)
<b>- Net expenditure on service for NHS Hertfordshire</b>	<b>-</b>

### Services on behalf of HHIA

The Hertfordshire Home Improvement Agency (the HHIA) was established in October 2017 and is a shared service between Hertfordshire County Council (HCC), East Herts District Council, North Herts District Council, Broxbourne Borough Council and Watford Borough Council to provide home and housing adaptations to Hertfordshire residents with Disabled Facilities Grant (DFG) allocations. HCC provides the shared service through the HHIA in accordance with the Partnership Agreement.

The entries relating to agency services include £4k absorbed by the Council and reported in Other Operating Expenditure. Further details are shown in the table below:

2016/17 £000s	2017/18 £000s
- Expenditure incurred on behalf of HHIA	244
- Expenditure recovered in accordance with the Partnership Agreement	(102)
- Income received in accordance with the Partnership Agreement	(87)
- Better Care Fund - funding towards HHIA	(50)
<b>- Net expenditure on service for HHIA</b>	<b>4</b>

# Notes to the Accounts

## Note 32: Pooled Budgets

In 2017/18 funding was provided by the Ministry of Housing, Communities & Local Government (MHCLG) to Hertfordshire County Council for the Improved Better Care Fund (IBCF). This funding is part of the BCF pooled budget but is separately identified in the table above.

In November 2015 a new S75 agreement was signed between Hertfordshire County Council, the Hertfordshire CCGs and Cambridgeshire & Peterborough CCG to include the Better Care Fund (which has incorporated the Westgate and Intermediate Care and Enablement Beds in East & North Hertfordshire pooled budgets within it). In 2016/17 there has been a BCF Variation Partnership Agreement signed updating the S75 although as the majority of the document is unchanged the November 2015 document is still current along with the Service Schedules (Schedule 1). A further Variation Partnership Agreement was produced in 2017/18.

The Better Care Fund in Hertfordshire is significantly larger than these specifically pooled amounts - which include funding for the protection of social care which is passed from the CCGs to Hertfordshire County Council - this amounts to £3,500k for Herts Valleys CCG and £4,250k for East & North Herts CCG. The remainder of the Better Care Fund (total fund is £290,739k) is currently not integrated and remains within the originating organisations.

A number of providers are commissioned from the pooled budgets. During 2017/18, this included £155.9m paid to Herts Partnership NHS Foundation Trust (£164.5m in 2016/17). Summary information for the pooled budgets that the Council contributed to is shown below:

2016/17								2017/18										
Westgate – East and North Herts	Intermediate care and Enablement beds in east and North Hertfordshire	Better Care Fund East & North Herts	Better Care Fund Cambridgeshire & Peterborough	Better Care Fund Herts Valleys	Mental health, learning disability (was JCPB)	Integrated Community Equipment Service		Westgate – East and North Herts	Intermediate care and Enablement beds in east and North Hertfordshire	Better Care Fund East & North Herts	Better Care Fund Cambridgeshire & Peterborough	Improved Better Care Fund Hertfordshire County Council	Total Schedule 1.1	Better Care Fund Herts Valleys	Improved Better Care Fund Hertfordshire County Council	Total Schedule 1.2	Mental health, learning disability (was JCPB)	Integrated Community Equipment Service
£000s	£000s	£000s	£'000s	£000s	£000s	£000s		£000s	£000s	£000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£000s	£000s
<u>Funding provided to the pooled budget</u>																		
(2,718)	(648)	-	-	-	(176,763)	(3,377)	The Council	(2,325)	(191)	(45)		(6,473)	(9,033)	(57)	(6,598)	(6,655)	(186,103)	(2,877)
-	-	-	-	-	-	-	BCF Transfer betw een Pools		(776)	776	-	-	-	-	-	-	-	-
(706)	(2,336)	(17,904)	-	-	(71,528)	(1,643)	East & North Herts CCG	(715)	(2,219)	(13,980)	-	-	(16,913)	-	-	-	(73,900)	(1,395)
-	-	-	-	(18,457)	(72,283)	(1,666)	Herts Valleys CCG	-	-	-	-	-	-	(13,757)	-	(13,757)	(74,159)	(1,414)
-	-	-	(300)	-	(2,448)	(58)	Cambs & Peter CCG			(322)			(322)		-	-	(2,420)	(58)
3,382	3,151	17,838	300	18,616	322,836	5,646	Expenditure met from the pooled budget	2,996	1,927	12,917	322	4,379	22,541	12,929	5,151	18,080	336,528	5,074
(42)	166	(66)	-	159	(186)	(1,099)	Net (surplus) / deficit arising on the pooled budget during the year	(44)	(1,258)	(331)	-	(2,094)	(3,727)	(885)	(1,447)	(2,332)	(55)	(671)

# Notes to the Accounts

## Note 33: Members' Allowances

The Council paid the following amounts in respect of Members' Allowances in 2017/18. In addition to the amounts paid to elected members, the table below includes amounts paid on behalf of the members in respect of Income Tax, National Insurance, pension contributions, and employers' pension contributions paid by the Council. The table also disclosed the allowances paid to co-opted public members of certain committees.

2016/17			2017/18		
Paid to individual	Other Costs	Total	Paid to individual	Other Costs	Total
£000s	£000s	£000s	£000s	£000s	£000s
<b>Elected Members</b>					
1,177	212	1,389	1,179	88	1,267
46	-	46	47	-	47
18	-	18	15	-	15
<b>1,241</b>	<b>212</b>	<b>1,453</b>	<b>1,242</b>	<b>88</b>	<b>1,330</b>
<b>Others</b>					
2	-	2	3	-	3
-	-	-	-	-	-
<b>2</b>	<b>-</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>3</b>
<b>1,243</b>	<b>212</b>	<b>1,455</b>	<b>1,245</b>	<b>88</b>	<b>1,333</b>
<b>Total</b>			<b>Total</b>		

## Note 34: Termination Benefits and Exit Packages

The Council terminated 235 employee contracts in 2017/18, who were either made redundant as part of the Council's rationalisation of these services or had departures agreed with their line management. This incurred liabilities of £2.491m. The table below details the number of exit packages and total cost per band. In accordance with the requirements of the Code of Practice, the costs disclosed are the additional costs of early termination, and exclude any amounts paid to employees under the standard terms of membership of their pension schemes.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
							£	£
£0 – £20,000	73	74	220	121	293	195	1,901,799	1,196,209
£20,001 – £40,000	6	9	35	25	41	34	1,188,277	917,668
£40,001 – £60,000	1	1	2	3	3	4	154,006	199,435
£60,001 – £80,000	-	-	3	1	3	1	209,311	69,761
£80,001 – £100,000	-	-	3	-	3	-	254,544	-
£100,001 – £150,000	-	1	-	-	-	1	-	107,499
£150,001 – £200,000	-	-	-	-	-	-	-	-
Greater than £200,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>80</b>	<b>85</b>	<b>263</b>	<b>150</b>	<b>343</b>	<b>235</b>	<b>3,707,938</b>	<b>2,490,572</b>

# Notes to the Accounts

## Note 35: Officers' Remuneration

The remuneration paid to the Council's employees (including Community Schools) earning over £50,000 is shown in the table below. These figures exclude pension contributions:

2016/17		2017/18
HCC Employees	Remuneration Band (£'s)	HCC Employees
186	50,000 - 54,999	218
127	55,000 - 59,999	126
90	60,000 - 64,999	116
59	65,000 - 69,999	72
39	70,000 - 74,999	45
19	75,000 - 79,999	18
13	80,000 - 84,999	15
13	85,000 - 89,999	8
5	90,000 - 94,999	6
5	95,000 - 99,999	11
3	100,000 - 104,999	5
5	105,000 - 109,999	3
-	110,000 - 114,999	2
-	115,000 - 119,999	-
1	120,000 - 124,999	2
-	125,000 - 129,999	-
-	130,000 - 134,999	-
1	135,000 - 139,999	1
2	140,000 - 144,999	2
-	145,000 - 149,999	-
-	150,000 - 154,999	-
-	155,000 - 159,999	-
-	160,000 - 164,999	-
-	165,000 - 169,999	-
-	170,000 - 174,999	-
-	175,000 - 179,999	-
-	180,000 - 184,999	-
1	185,000 - 189,999	1
<b>569</b>		<b>651</b>

Remuneration is defined in the Accounts and Audit Regulations 2017 as including:

- Sums paid to or receivable by an employee - Remuneration is usually taken to comprise gross pay (i.e. before the deduction of employee's pension contributions), compensation for loss of office and any other payments receivable on the termination of employment, even where these are not taxable and any ex gratia payments other than those for direct reimbursement of costs. Remuneration does not include employer's pension contributions.
- Expense allowances chargeable to tax - For example the profit element of car allowances.
- The money value of benefits - Other benefits, such as car loans, leased cars, travel cards and mobile phones.

## Notes to the Accounts

The Accounts and Audit Regulations 2015 require the disclosure of information to provide greater transparency in respect of the total remuneration package for the senior team charged with stewardship of the organisation.

For senior members of the organisation disclosure is also made under the following categories:

- Salary, fees and allowances
- Bonuses
- Expenses allowances
- Compensation for loss of employment
- Employer's pension contribution
- Any other emoluments

The following table sets out the Senior Officers whose salary is £150,000 or more per year.

Position	Notes	Year	Salary	Benefits in Kind (*)	Compensation Payments	Total Remuneration excluding pension contributions	Pension Contributions	Remuneration including Pension Contributions
			£	£	£	£	£	£
Chief Executive & Director of Environment - J Wood		2017/18	186,850	546	-	187,396	38,491	225,887
		2016/17	185,000	65	-	185,065	38,110	223,175

(\*) *Benefits in Kind covers Car Lease payments*

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to, or more than, £50,000 per year. For the purposes of this disclosure Senior Officers have been defined as the Chief Executive, his direct reports, deputy chief officers and the Monitoring Officer. The total number of employees whose salary is between £50,000 and £150,000 is shown within £5,000 bands in the earlier table within this Note.

## Notes to the Accounts

Position	Notes	Year	Salary	Benefits in Kind (*)	Compensation Payments	Total Remuneration excluding pension contributions	Pension Contributions	Remuneration including Pension Contributions
			£	£	£	£	£	£
Director Adult Care Services		2017/18	136,350	-	-	136,350	28,088	164,438
		2016/17	135,000	-	-	135,000	27,810	162,810
Director Community Protection (CFO) (see Note 1)		2017/18	-	-	-	-	-	-
		2016/17	89,794	2,274	-	92,068	17,546	109,614
Acting Director Community Protection (CFO) (see note 2)		2017/18	121,106	6,120	-	127,227	15,102	142,329
		2016/17	-	-	-	-	-	-
Acting Deputy Chief Fire Officer (see note 2)		2017/18	-	-	-	-	-	-
		2016/17	105,611	7,883	-	113,494	15,102	128,596
Deputy Chief Fire Officer (see note 2)		2017/18	95,000	4,573	-	99,573	12,854	112,427
		2016/17	-	-	-	-	-	-
Deputy Director Community Protection (see note 2)		2017/18	95,000	-	-	95,000	19,570	114,570
		2016/17	-	-	-	-	-	-
Chief Legal Officer		2017/18	110,721	-	-	110,721	22,808	133,529
		2016/17	106,654	-	-	106,654	21,971	128,625
Director of Children's Services		2017/18	144,430	-	-	144,430	29,753	174,183
		2016/17	143,000	-	-	143,000	29,458	172,458
Deputy Director Children's Services, Education		2017/18	-	-	-	-	-	-
		2016/17	50,868	955	-	51,823	10,479	62,302
Director Family Safeguarding		2017/18	97,465	-	-	97,465	20,078	117,543
		2016/17	88,579	-	-	88,579	18,247	106,826
Deputy Director, Environment		2017/18	108,962	-	-	108,962	22,446	131,408
		2016/17	107,883	-	-	107,883	22,224	130,107
Director Public Health		2017/18	110,575	-	-	110,575	22,778	133,353
		2016/17	109,480	-	-	109,480	22,553	132,033
Deputy Director Public Health		2017/18	-	-	-	-	-	-
		2016/17	140,933	-	-	140,933	29,032	169,965
Director Resources (S151 officer)		2017/18	142,814	-	-	142,814	29,420	172,234
		2016/17	140,933	-	-	140,933	29,032	169,965

(\*) Benefits in Kind covers Car Lease payments

**Note 1:** The Director of Community Protection is seconded to the Chair of the National Fire Chiefs Council with effect from 1 April 2017.

**Note 2:** As a result of the secondment of the Director Community Direction a number Community Protection (Herts Fire & Rescue) roles have been re-organised to cover

# Notes to the Accounts

## Note 36: Pensions Schemes Accounted for as Defined Contributions Schemes

### Teacher's Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA) in the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 16.48% for 2017/18.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme - no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable for the year.

Council contributions to the Teachers' Pensions Agency in respect of teachers' retirement benefits have amounted to £37.389m for 2017/18 (£38.590m in 2016/17).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. During 2017/18 the cost of these unfunded discretionary awards amounted to £4.165m (£4.162m in 2016/17).

### Public Health

Public Health employees who were compulsorily transferred from the PCTs to the Council and who had access to the NHS Pension Scheme on 31<sup>st</sup> March 2013 retained access to that Scheme on transfer at 1<sup>st</sup> of April 2013. The Scheme provides these employees 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 pension cost charged to the accounts is the contribution rate of 14.3% for 2017/18.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis the balance sheet and the Public Health service revenue account is charged with the employer's contributions payable for the year.

Council contributions to the NHS Pension Fund in respect of these employees' retirement benefits have amounted to £0.205m for 2017/18 (£0.234m in 2016/17).

# Notes to the Accounts

## Note 37: Defined Benefit Pension Schemes

### Participation in Defined Benefit Pension Schemes:

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in two defined benefit pension schemes:

- **The Local Government Pension Scheme** for employees other than teachers and fire-fighters. This scheme operates under the regulatory framework for the Local Government Pension Scheme and its governance is the responsibility of Hertfordshire County Council's Pensions Committee. The scheme is administered by the Council and is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- **The Fire-fighters Pension Scheme** – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liability. Employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

In addition to the above, the Council also makes contributions into the Teachers' Pension Scheme and the NHS Pension Scheme. Further information relating to these schemes, which provide retirement benefits for teaching and Public Health staff is shown in the note to the accounts "Defined Contribution Schemes" (Note 36). IAS 19 does not apply to the Council's contribution to these pension schemes.

Hymans Robertson, an independent firm of actuaries, has valued the Council's fund asset share and liabilities for both the Local Government Pension Scheme and Fire-fighters Pension Scheme.

The pension increase assumption, as with the accounting exercise in 2011, will be in line with the Consumer Price Index (CPI) which will be calculated at 1% per annum below RPI.

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March together with the movement from the previous year are shown below.

The most recent actuarial valuation of the Local Government Pension scheme was carried out as at 31 March 2017. This valuation identified that the Council's share of assets were sufficient to meet 96% of its liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The certified employer contribution rate for the period 1 April 2017 - 31 March 2020 remained unchanged at 20.6% of pensionable payroll.

### Transactions relating to retirement benefits:

The Council recognises the cost of retirement benefits in the reported 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 post-employment/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 General Fund Balance via the Movement in Reserves Statement during the year:

# Notes to the Accounts

2016/17		2017/18	
Local Government Pension Scheme	Fire-Fighters Pension Scheme	Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s	£000s	£000s
<b>Comprehensive Income and Expenditure Statement</b>			
<i>Cost of Service:</i>			
69,626	8,600	100,268	10,500
795	1,600	701	-
-	-	-	-
<i>Financing and Investment Income and Expenditure:</i>			
16,632	14,900	15,716	12,500
<b>87,053</b>	<b>25,100</b>	<b>116,685</b>	<b>23,000</b>
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>			
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>			
<i>Remeasurement of the net defined benefit liability comprising:</i>			
(247,692)	-	(58,512)	-
(26,066)	2,800	-	(5,100)
381,559	88,200	(48,675)	(8,800)
(21,211)	(49,414)	86	17,250
<b>86,590</b>	<b>41,586</b>	<b>(107,101)</b>	<b>3,350</b>
<b>173,643</b>	<b>66,686</b>	<b>9,584</b>	<b>26,350</b>
<b>Total Post Employment Benefit Charged to Other Comprehensive Income and Expenditure</b>			

2016/17		2017/18	
Local Government Pension Scheme	Fire-Fighters Pension Scheme	Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s	£000s	£000s
<i>Movement in reserves statement:</i>			
(87,053)	(25,100)	(116,685)	(23,000)
-	-	-	-
<i>Actual amount charged against Council Tax for pensions in the year</i>			
55,350	3,277	56,061	3,327
-	7,109	-	7,923
4,162	-	4,004	-
<b>(27,541)</b>	<b>(14,714)</b>	<b>(56,620)</b>	<b>(11,750)</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2018 is a gain of £314.904m.

## Notes to the Accounts

The following amounts are carried in the balance sheet:

2016/17			2017/18		
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme	
£000s	£000s		£000s	£000s	
2,565,719	482,000	Present Value of the defined benefit obligation	2,635,595	497,100	
(1,981,420)	-	Fair Value of scheme assets	(2,101,777)	-	
<b>584,299</b>	<b>482,000</b>	<b>Net Liability arising from the defined benefit obligation</b>	<b>533,818</b>	<b>497,100</b>	

### Assets and liabilities in relation to retirement benefits

#### Reconciliation of present value of the scheme liabilities

2016/17			2017/18		
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme	
£000s	£000s		£000s	£000s	
<b>2,142,769</b>	<b>425,700</b>	<b>Opening balance at 1 April</b>	<b>2,565,719</b>	<b>482,000</b>	
73,899	8,600	Current service costs	104,914	10,500	
75,177	14,900	Interest costs	67,329	12,500	
16,392	2,000	Contributions by scheme participants	16,421	2,200	
		<i>Remeasurement gain/loss</i>			
(26,066)	2,800	• Actuarial (gains) and losses arising from changes in demographic assumptions	-	(5,100)	
381,559	88,200	• Actuarial (gains) and losses arising from changes in financial assumptions	(48,675)	(8,800)	
(21,091)	(49,200)	• Other experience	(410)	16,700	
(73,553)	(12,600)	Benefits paid	(66,400)	(12,900)	
795	1,600	Past service costs	701	-	
(4,162)	-	Entity combinations	(4,004)	-	
-	-	Settlements	-	-	
<b>2,565,719</b>	<b>482,000</b>	<b>Closing balance at 31 March</b>	<b>2,635,595</b>	<b>497,100</b>	

# Notes to the Accounts

## Reconciliation of fair value of the scheme assets

2016/17			2017/18		
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme	
£000s	£000s		£000s	£000s	
<b>1,672,601</b>	-	<b>Opening balance at 1 April</b>	<b>1,981,420</b>	-	
		<i>Remeasurement gain/loss</i>			
58,545	-	• Net interest income on Scheme Assets	51,613	-	
247,692	-	• Expected return on assets (excluding the amount included in the net interest expense)	58,512	-	
59,743	10,600	Employer contributions	60,211	10,700	
16,392	2,000	Contributions by scheme participants	16,421	2,200	
4,162	-	Contributions in respect of unfunded benefits	4,004	-	
(73,553)	-	Benefits paid	(66,400)	-	
(4,162)	-	Unfunded benefits paid	(4,004)	-	
-	(12,600)	Pension and lump sum expenditure	-	(12,900)	
-	-	Settlements	-	-	
<b>1,981,420</b>	-	<b>Closing balance at 31 March</b>	<b>2,101,777</b>	-	

The Fire-fighters' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

## Notes to the Accounts

2016/17			2017/18		
Local Government Pension Scheme		Fire-Fighters Pension Scheme	Local Government Pension Scheme		Fire-Fighters Pension Scheme
Quoted prices in active markets	Quoted prices not in active markets		Quoted prices in active markets	Quoted prices not in active markets	
£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Equity</u></b>					
154,487	-	- Consumer	96,034	-	-
148,271	-	- Manufacturing	82,605	-	-
35,702	-	- Energy and Utilities	22,037	-	-
132,687	-	- Financial Institutions	93,752	-	-
26,829	-	- Health and Care	13,304	-	-
108,038	-	- Information Technology	65,523	-	-
6,673	-	- Other	4,997	-	-
<b><u>Debt Securities</u></b>					
-	-	- Corporate Bonds (investment grade)	-	-	-
-	-	- UK Government	-	-	-
-	-	- Other	-	855	-
-	91,479	- <b><u>Private Equity</u></b>	-	79,743	-
<b><u>Real Estate</u></b>					
-	64,116	- UK Property	-	69,626	-
-	74,255	- Overseas Property	-	68,617	-
<b><u>Investment Funds and Unit Trusts</u></b>					
415,167	-	- Equities	552,424	-	-
545,812	-	- Bonds	755,894	-	-
-	-	- Commodities	-	-	-
-	4,498	- Infrastructure	-	5,013	-
7,648	104,306	- Other	15,654	107,231	-
<b><u>Derivatives</u></b>					
-	(3,939)	- Foreign Exchange	-	(1,681)	-
65,390	-	- <b><u>Cash &amp; Cash Equivalents</u></b>	70,150	-	-
<b>1,646,705</b>	<b>334,715</b>	- <b>Total</b>	<b>1,772,374</b>	<b>329,403</b>	-

The above asset values as at 31 March 2018 are at bid value as required under IAS 19.

# Notes to the Accounts

## Asset and Liability Matching Strategy

The Council, having taken appropriate professional advice, has taken steps to mitigate investment risk and to set an investment strategy that is appropriate for the Fund's liabilities. A summary of the key steps taken is provided below:

- **Diversification** – the Fund has adopted a strategy that is diversified by asset class, region, sector and investment manager.
- **De-risking plan** – the Fund is moving towards a lower risk strategy that will comprise 65% in “growth” assets and 35% in “defensive” assets. The allocation between growth and defensive assets as at the accounting year end date was approximately 74% growth / 26% defensive.
- **Defensive asset portfolio** – the Fund has appointed three specialist mandates to manage the defensive assets (absolute return, UK corporate bonds, and liability matching). The liability matching mandate will seek to offer some protection from changes in inflation and interest rates.
- **Monitoring** – the Fund's investment arrangements are regularly monitored. The Council receives independent reporting from the custodian and the Fund's Investment Consultant and the Pensions Committee meet the investment managers on an ongoing basis.

## Impact on Future Cash flows

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability as at 31 March 2018 of £1.065bn has a substantial impact on the net worth of the Council as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean:-

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, and;
- In the case of Firefighters pensions the underlying principle is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The total contributions estimated to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £59.1m. Expected contributions for the Firefighters Pension Scheme in the year to 31 March 2019 have not been estimated as being an unfunded scheme, the employer contribution depends on the benefits that will be paid in the year, the employee contributions and transferred in amounts received.

The maturity profile is as follows:

	Local Government Pension Scheme		Fire Fighters Pension Scheme	
	Liability Split	Weighted Average Duration	Liability Split	Weighted Average Duration
Active Members	42.30%	22.20	39.40%	25.00
Deferred Members	23.40%	21.80	4.40%	26.50
Pensioner Members	34.20%	11.20	56.10%	11.50

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Fire-fighters Scheme and the Local Government Pension Fund liabilities have been assessed by Hymans

## Notes to the Accounts

Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2017.

The principal assumptions used by the actuary have been:

2016/17			2017/18	
Local Government Pension Scheme	Fire-Fighters Pension Scheme New Scheme		Local Government Pension Scheme	Combined Fire-Fighters Pension Scheme
<u>Mortality assumptions:</u>				
Longevity at 65 for current pensioners:				
22.5 years	30.2 years	o Men	22.5 years	28.6 years
24.9 years	31.7 years	o Women	24.9 years	31.0 years
Longevity at 65 for future pensioners:				
24.1 years	31.6 years	o Men	24.1 years	29.7 years
26.7 years	33.2 years	o Women	26.7 years	32.2 years
2.50%	3.40%	Rate of increase in salaries	2.50%	3.40%
2.40%	2.40%	Rate of increase in pensions	2.40%	2.40%
2.60%	2.60%	Rate for discounting scheme liabilities	2.70%	2.70%
75%	90%	Take-up of option to convert annual pension into retirement lump sum *	75%	90%

\* An allowance is included for future retirements to elect to take 75% of the maximum tax-free cash for post-April 2008 service and 50% of the maximum additional tax-free cash up to HMRC limits for pre- April 2008 service

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

### Sensitivity Analysis

Change in Assumptions at 31st March 2018	Local Government Pension Scheme		Fire Fighters Pension Scheme	
	Approximate %increase to Employer Liability	Approximate monetary amount £000s	Approximate %increase to Employer Liability	Approximate monetary amount £000s
0.5% increase in the Salary Increase Rate	1.00%	27,706	1.00%	4,372
0.5% increase in the Pension Increase Rate	8.00%	223,262	8.00%	38,524
0.5% decrease in Real Discount Rate	10.00%	253,399	9.00%	45,623

# Notes to the Accounts

## Note 38: Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

### Credited to Taxation and Non Specific Grant Income

2016/17		2017/18
£000s		£000s
(79,992)	Revenue Support Grant	(44,535)
-	Adult Social Care (New Burdens)	(4,153)
(11,918)	Education Services Grant	(3,221)
(7,760)	Transition Grant	(7,849)
(6,899)	New Homes Bonus	(5,642)
(2,631)	Business Rates Autumn Statement Compension 2016/17	(4,253)
(746)	Send Reform	(1,440)
(2,141)	Independent Living Fund	(2,070)
(1,699)	Other grants less than £1m each	(2,873)
(7,442)	Fire Pension Top-up Grant	(7,923)
(103,756)	Capital Grants and Contributions	(110,948)
<b>(224,984)</b>	<b>Total</b>	<b>(194,907)</b>

# Notes to the Accounts

## Credited to Services

2016/17		2017/18
£000s		£000s
	<b><u>Education Funding Agency</u></b>	
(14,834)	Grant for Sixth Formers	(14,617)
(572,900)	Dedicated Schools Grant	(584,632)
(26,320)	Pupil Premium	(24,294)
(6,150)	Building Schools for the Future	(6,150)
(3,453)	PE and Sports Grant	(5,299)
(14,097)	Universal Infant Free School Meals	(13,677)
(262)	Other grants less than £1m each	(194)
	<b><u>Department for Education</u></b>	
(1,174)	Youth Innovation Fund	(247)
(2,279)	Others grants less than £1m each	(1,199)
	<b><u>Department of Health</u></b>	
(50,047)	Public Health	(48,813)
-	Others grants less than £1m each	-
	<b><u>Youth Justice Board</u></b>	
(714)	Youth Justice	-
(65)	Other grants less than £1m each	(791)
	<b><u>Department for Communities and Local Government</u></b>	
(1,871)	PFI Credits	(1,871)
-	Improved Better Care Fund (iBCF)	(13,071)
(1,758)	Troubled Families Grant	(2,110)
(564)	Others grants less than £1m each	(584)
	<b><u>Home Office</u></b>	
(2,107)	Unaccompanied Asylum Seeking Children	(2,504)
(943)	Other grants less than £1m each	(991)
	<b><u>Department for Transport</u></b>	
(74)	Local sustainable transport fund	-
(1,212)	Bus Services Operators Grant (BSOG)	(1,212)
(448)	Other grants less than £1m each	(165)
	<b><u>Highways England</u></b>	
-	A5 Detrunking	(2,000)
	<b><u>Skills Funding Agency</u></b>	
(2,124)	Community Learning	(1,858)
(539)	Other grants less than £1m each	(766)
	<b><u>Various Other bodies</u></b>	
(1,640)	Music Services Grant	(1,642)
(17,844)	Other grants less than £1m each & contributions	(23,501)
<b><u>(723,419)</u></b>		<b><u>(752,188)</u></b>

# Notes to the Accounts

## Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver in the event that these conditions are not met. The balances at the year-end are as follows:

2016/17		2017/18
£000s		£000s
<b>(45,462)</b>	<b>Balance at start of year</b>	<b>(48,901)</b>
(63,569)	New grants received in advance	(45,284)
0	Grants reclassified in year to Capital Grants Received in Advance	(118)
1,048	Grants reclassified in year from Capital Grants Received in Advance	74
59,082	Application of grants used in year	47,165
<b>(48,901)</b>	<b>Balance at end of year</b>	<b>(47,064)</b>

These balances, together with Capital Grants Unapplied (see Note 23), give a total £158.5m at 31 March 2018 available for funding capital spending.

## Note 39: Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). 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 a Council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget	Total
	£000s	£000s	£000s
Final DSG for 2017/18 before deductions for academy recoupment and direct funding of high needs places by the EFA			<b>908,740</b>
Deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18			(324,108)
Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18			<b>584,632</b>
Plus: Brought forward from 2017/18			21,289
Less: Carry-forward to 2017/18 agreed in advance			(11,954)
<b>Agreed initial budgeted distribution in 2017/18</b>	<b>93,633</b>	<b>500,334</b>	<b>593,967</b>
In year adjustments	-	-	-
<b>Final budget distribution for 2017/18</b>	<b>93,633</b>	<b>500,334</b>	<b>593,967</b>
Less: Actual central expenditure	(86,976)	-	(86,976)
Less: Actual ISB deployed to schools	-	(495,611)	(495,611)
Plus: Local authority contribution for 2017/18	-	-	-
2017/18 in year balance carried forward to 2018/19	<b>6,657</b>	<b>4,723</b>	<b>11,380</b>
Carry forward to 2018/19 agreed in advance	-	-	11,954
<b>Total carry forward to 2018/19</b>			<b>23,334</b>

## Notes to the Accounts

Comparatives for 2016/17 of the deployment of DSG received are as follows:

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget	Total
	£000s	£000s	£000s
Final DSG for 2016/17 before deductions for academy recoupment and direct funding of high needs places by the EFA			871,302
Deductions for academy recoupment and direct funding of high needs places by the EFA for 2016/17			(298,402)
Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2016/17			572,900
Plus: Brought forward from 2015/16			22,013
Less: Carry-forward to 2017/18 agreed in advance			(11,854)
<b>Agreed initial budgeted distribution in 2016/17</b>	<b>84,037</b>	<b>499,022</b>	<b>583,059</b>
In year adjustments	-	-	-
<b>Final budget distribution for 2016/17</b>	<b>84,037</b>	<b>499,022</b>	<b>583,059</b>
Less: Actual central expenditure	(77,649)	-	(77,649)
Less: Actual ISB deployed to schools	-	(495,975)	(495,975)
Plus: Local authority contribution for 2016/17	-	-	-
2016/17 in year balance carried forward to 2017/18	6,388	3,047	9,435
Carry forward to 2017/18 agreed in advance	-	-	11,854
<b>Total carry forward to 2017/18</b>			<b>21,289</b>

### Note 40: External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

2016/17 £000s		2017/18 £000s
142	Fees payable with regard to external audit services carried out by the appointed auditor for the year	121
-	Fees payable for the certification of grant claims and returns for the year	-
13	Fees payable in respect of other services provided during the year	13
<b>155</b>	<b>Total</b>	<b>134</b>

Fees payable in respect of external audit services in 2017/18 includes a rebate from the Public Sector Audit Appointments Limited (PSAA) for a redistribution of Audit Commission retained earnings (£21k). Fees payable in respect of other services provided during the year relate to the audit of the Teachers' Pension return.

### Note 41: Contingent Assets

There were no contingent assets as at 31 March 2018.

# Notes to the Accounts

## Note 42: Contingent Liabilities

At 31 March 2018 the Council was aware of the following potential liabilities it may face in the future. These items have not been reflected in the accounts as there is no certainty that an actual liability may arise, or because there is uncertainty as to the amount of liability or when it will arise.

The Contingent liabilities identified relate to:

### Municipal Mutual Insurance

In common with most other local authorities, until 30 September 1992 the Council insured with the Municipal Mutual Insurance (MMI) Company. Following MMI's insolvency a Scheme of Arrangement was put in place, pursuant to section 425 of the Companies Act 1985, now section 899 of the Companies Act 2006. The Scheme is managed by the Scheme Administrator and overseen by the Creditors' Committee as well as MMI's regulator appointed by the Financial Conduct Authority. The Scheme of Arrangement monitors MMI's solvency and provides for a levy to be imposed on all the Scheme Creditors in the event funds are required to pay for outstanding claims.

On 13 November 2012, the Scheme was triggered by the Directors of MMI as they could no longer foresee a solvent run-off for the payment of outstanding claims. This resulted in the imposition of a levy on all Scheme Creditors that have had claims paid since inception of the Scheme of Arrangement. This first levy of 15% amounting to £705,000 was issued on 1 January 2014 based on claims valued at £4.7m (less £50,000 retention).

During 2016/17 an interim levy was paid, taking the overall levy to 25% based on current estimated liabilities of MMI relating to HCC.

Because the 25% levy is applied to all future claims arising, a further provision against the value of currently open claims was made in March 2018. The provision of £245,604 was funded by a drawdown on the MMI reserve held to cover the contingent liability.

There is continued uncertainty around the scale of the final payment due to the types of claims that continue to be submitted against MMI (historic child abuse and mesothelioma). Given this uncertainty, and in recognition of a contingent liability for any future claim, a reserve of £0.633m has been maintained.

### Local Authority Mortgage Scheme (LAMS)

Under this scheme, the Council has entered arrangements that provide a guarantee to meet first losses on specified mortgages within the local authority area. £10m was deposited with Lloyds Bank and Leeds Building Society during 2012/13, and these institutions will make mortgage advances up to this amount. The value of this guarantee, based on estimated mortgage default rates, is shown as a charge in the Comprehensive Income and Expenditure Account. However, as the actual likely default rate for these mortgages is unknown, there remains a contingent liability that the Council will have to meet the cost of defaults above this. The Council received a premium interest for the risk associated with the LAMS Scheme, which was added to the commercial deposit rate. This premium was set aside in an earmarked reserve to contribute towards funding any future potential liabilities.

### Hertfordshire Pension Fund

The Council has a contingent liability in respect of admitted bodies in the Hertfordshire Pension Fund to which it has contracted services and transferred staff. Under the Local Government Pension Scheme Regulations 2013, the Council is responsible for the liabilities of these admitted bodies in the event that they fail to pay their obligations to the Pension Fund. The Council operates a risk management strategy for these admitted bodies and its standard approach is to require a financial bond to be maintained to offset their actuarially assessed liabilities.

### Sleep-Ins backdated for 6 Years

A ruling by the Employment Appeals Tribunal in April 2017 confirmed that National Living Wage (NLW) requirements applied for sleep-in support, as the employee is required to remain at the premises regardless of whether they are awake or asleep.

## Notes to the Accounts

HCC has complied with this ruling from 2017/18 by processing backdated payments to providers where a flat fee was paid for sleep-ins. However there is a possibility that Providers could request 6 years of backdated payments from HCC as they may be liable to pay these costs to their employees.

It is expected further information on whether HCC will be required to backdate the payment for 6 years will be announced by Central Government during 2018/19 which will provide greater certainty over the potential liability.

### Metropolitan Line Extension (Croxley Rail Link)

As a result of political and cost changes identified and reported in 2016/17, and following discussion between Transport for London (TfL) and the Department for Transport (DfT), it is unlikely that the Metropolitan Line Extension (Croxley Rail Link) will proceed as planned. This may lead to potential liabilities for the Council, which at 31 March were uncertain and not quantified.

## Note 43: Financial Instruments

The Council's financial liabilities held during the year are all measured at amortised cost and comprise:

- Long-term loans from the Public Works Loan Board and commercial lenders
- Finance Leases detailed in note 16
- Private Finance Initiative contracts detailed in note 17
- Guarantees for Local Authority Mortgage Scheme
- Trade payables for goods and services received

The financial assets held by the Council during the year are held under the following three classifications:

**1. Loans and Receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:**

- Bank current and high interest call account with Barclays Bank
- Fixed term deposits with banks and building societies
- Impaired investments in Icelandic banks
- Loans to other local authorities
- Trade receivables for goods and services delivered
- Loans made for service purposes, detailed below as Soft Loans

**2. Available for sale financial assets (those that are quoted in an active market) comprising:**

- Money Market Funds, both constant and variable Net Asset Value funds.
- Pooled fund investments including property, equity, bond and multi-asset funds

**3. Available for Sale financial assets (based on unobservable inputs):**

- Investments in companies set up by the Council (Surecare, Hertfordshire Catering Limited, Herts for Learning and Herts Living Limited)
- Investment in shares in the Municipal Bond Agency

The financial instruments disclosed in the Balance sheet are analysed across the above categories as follows:

## Notes to the Accounts

31 March 2017			31 March 2018	
Short Term	Long Term		Short Term	Long Term
£000s	£000s		£000s	£000s
		<b><u>Investments</u></b>		
15,104	-	Loans and receivables	23,050	-
20,919	31,411	Available-for-sale financial assets	17,759	(34,974)
-	425	Unquoted equity investment at cost	-	-
<b>36,022</b>	<b>31,836</b>	<b>Total investments</b>	<b>40,809</b>	<b>(34,974)</b>
		<b><u>Debtors</u></b>		
73,564	36,105	Loans and receivables	74,213	25,831
<b>73,564</b>	<b>36,105</b>	<b>Total debtors*</b>	<b>74,213</b>	<b>25,831</b>
		<b><u>Cash &amp; Cash Equivalents</u></b>		
69,954	-	Loans & Receivables	62,917	-
30,327	-	Available-for-sale investments	61,047	-
<b>100,281</b>	<b>-</b>	<b>Total Cash &amp; Cash Equivalents</b>	<b>123,964</b>	<b>-</b>
		<b><u>Borrowings</u></b>		
(32,909)	(260,768)	Financial liabilities at amortised cost	(2,848)	(260,760)
<b>(32,909)</b>	<b>(260,768)</b>	<b>Total borrowings</b>	<b>(2,848)</b>	<b>(260,760)</b>
		<b><u>Other Liabilities</u></b>		
(1,463)	(54,474)	PFI liabilities	(1,672)	(52,802)
(33)	(35)	Finance lease liabilities	(35)	-
-	(46)	Future Repayments due on Mortgages and Advances	-	(5)
<b>(1,496)</b>	<b>(54,554)</b>	<b>Total other liabilities</b>	<b>(1,707)</b>	<b>(52,806)</b>
		<b><u>Creditors</u></b>		
(116,799)	(1,021)	Financial liabilities at amortised cost	(120,311)	(1,244)
<b>(116,799)</b>	<b>(1,021)</b>	<b>Total creditors*</b>	<b>(120,311)</b>	<b>(1,244)</b>

\* The Debtor and Creditor lines in Note 43 do not match those given in Notes 18 and 21, as these values include £49,519k and (£36,043k) respectively that do not meet the definition of a financial instrument.

### Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. Loans of cash value £14.2m are included in the long-term debtors figure on the balance sheet at their adjusted value of £13.3m. There is one significant individual soft loan made by HCC. This has been made at nil interest using Local Enterprise Partnership balances to lend £6m to Watford Borough Council. The remaining £7.2m is mostly comprised of Adult Social Care and Children's Services loans to service users (or their families) at nil interest to pay for home adaptations which will support the service user to live at home, and reduce their need for council services. These loans are secured against the property to ensure full repayment on the sale of the property.

### Reclassifications

Unquoted equity investments in companies set up by the Council [Herts Catering Limited and Herts for Learning Limited] were previously carried at cost as allowed under an exemption within the code for Group Accounts. As the Council has not prepared group accounts for 2017/18 this exemption is no longer available and these have been reclassified at fair value as available for sale equity instruments.

# Notes to the Accounts

## Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

2016/17					2017/18					
Financial Liabilities measured at amortised cost	Financial Assets: Loans & Receivables	Financial Assets: Available for sale	Assets & Liabilities at Fair Value through Profit and Loss	Total		Financial Liabilities measured at amortised cost	Financial Assets: Loans & Receivables	Financial Assets: Available for sale	Assets & Liabilities at Fair Value through Profit and Loss	Total
£000s	£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s
17,883	-	-	-	17,883	Interest expense	17,617	-	-	-	17,617
-	-	-	-	-	Losses on derecognition	-	-	-	-	-
-	-	-	-	-	Reductions in fair value	-	-	-	-	-
-	(7)	-	-	(7)	Impairment losses	-	(14)	-	-	(14)
-	-	-	-	-	Exchange Rate Losses	-	-	-	-	-
-	44	-	-	44	Fee expense	-	27	-	-	27
17,883	37	-	-	17,919	Interest Payable and Similar Charges	17,617	13	-	-	17,631
-	(1,452)	(1,793)	-	(3,244)	Interest income	-	(2,190)	(1,945)	-	(4,135)
-	(4)	-	-	(4)	Interest income accrued on impaired financial assets	-	(3)	-	-	(3)
-	(1,456)	(1,793)	-	(3,249)	Interest Receivable and Similar Charges	-	(2,193)	(1,945)	-	(4,138)
-	-	(998)	-	(998)	Gains on revaluation	-	-	(3,784)	-	(3,784)
-	-	-	-	-	Losses on revaluation	-	-	-	-	-
-	-	-	-	-	Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-
-	-	(998)	-	(998)	Impact of Revaluation in Other Comprehensive Income	-	-	(3,784)	-	(3,784)
17,883	(1,419)	(2,791)	-	13,673	Net (gain) / loss for the year	17,617	(2,179)	(5,729)	-	9,709

## Fair Values of Assets and Liabilities

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

- estimated ranges of interest rates at 31 March 2018 of 0.76% to 2.25% for loans from the Public Works Loan Board (PWLb) and 2.06% to 2.13% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values are shown in the tables below, split by their levels in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

## Notes to the Accounts

There were no transfers between input levels during the financial year 2017/18.

The fair values calculated are as follows:

### Fair value of liabilities:

31 March 2017				31 March 2018			
Carrying Amount	Fair Value	Fair Value		Carrying Amount	Fair Value	Fair Value	
£000s	£000s	Level		£000s	£000s	Level	
293,677	438,763	2	Borrowings	263,608	421,126	2	
55,937	93,143	2	PFI Liabilities	54,474	87,279	2	
68	68	2	Finance Lease Liabilities	35	35	2	
46	46	2	Future repayments on mortgages and advances	5	5	2	
117,232	117,232	2	Creditors	121,555	121,555	2	

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates. These Level 2 fair values have been calculated by discounting future cashflows at current market rates for comparable loans, and in addition on LOBO (Lender's Option, Borrower's Option) loans a fair value for the options has been calculated by the Council's treasury advisor using market information.

Short-term creditors are carried at cost, as this is a fair approximation of their carrying value. The fair value of long-term creditors is assumed to be commensurate with the carrying value.

### Fair value of assets:

31 March 2017				31 March 2018			
Carrying Amount	Fair Value	Fair Value		Carrying Amount	Fair Value	Fair Value	
£000s	£000s	Level		£000s	£000s	Level	
85,058	85,058	2	Loans and Receivables	85,967	85,967	2	
82,656	82,656	1	Available for sale financial assets	43,831	43,831	1	
425	425	NA	Available for sale financial assets	4,264	4,264	3	
109,669	109,669	2	Debtors	100,044	100,044	2	

No loans and receivable assets are long-term investments and therefore no adjustments for fair value are required, as fair value is assumed to equate to carrying value.

Available for sale assets are carried in the Balance Sheet at their fair value. Most of these fair values are Level 1 and are based on public price quotations as there is an active market for the instrument. However, there are some where the fair values are level 3, based on unobservable data including an assessment of the net assets of the entity.

Short-term debtors are carried at cost, as this is a fair approximation of their carrying value. The fair value of Long-term Debtors is assumed to be commensurate with the carrying value.

# Notes to the Accounts

## Note 44: Impairment Losses

2016/17 £000s	2017/18 £000s
(7) Icelandic Investments	14
<b>(7) Total</b>	<b>14</b>

### Accounting

A £0.014m reversal of previous years' impairment loss for Kaupthing, Singer and Friedlander Ltd (KSF) has been recognised in the Comprehensive Income and Expenditure Account in 2017/18, reflecting an improvement in the forecast recovery for the KSF investments based on the latest forecast dividend from the administrators. This has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Council until remaining outstanding monies are recovered.

The Heritable investments were fully impaired in 2015/16 as a result of the administrators' forecast that there would be no further distributions in respect of the Heritable investments. They have not changed their view on Heritable and (as detailed below) we expect no further dividend to be paid for these investments. No adjustment has therefore been made to impairment losses for Heritable investments during 2017/18

Notional interest is also credited to the Comprehensive Income and Expenditure account in 2016/17 of £0.003m.

### Icelandic Investments

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £28m deposited with these institutions, with varying maturity dates and interest rates. All monies invested with these institutions are subject to the respective administration and receivership processes, and the amounts and timing of payments to depositors such as the Council are determined by the administrators / receivers. Since 2009/10, the Council has considered an impairment adjustment for the deposits, based on latest information, and has calculated the impairment. These amounts have been adjusted as updated information on the amounts and timings of payments has been provided by the administrators / receivers

The current position in relation to recovery of the sums deposited is set out below.

### Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008.

Following a dividend payment in August 2015, 98p in the £ has been distributed to Creditors.

The latest administrators report from March 2018 states that there are currently no planned distributions to creditors. This is unchanged from the report from March 2017, and in 2016/17 the Council recognised impairment based on there being no expectation of further recovery.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 6 October 2008. Details of the Council's deposits with Heritable Bank and the associated impairment are shown overleaf:

## Notes to the Accounts

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/18 £'000	Carrying Amount £000s	Impairment £000s
15/09/2008	15/04/2009	£2m	6.00%	1,967	0	283
19/09/2008	23/12/2008	£5m	6.05%	4,914	0	693

### Kaupthing, Singer and Friedlander Ltd (KSF)

The latest creditor report issued in October 2017 by the administrators Ernst and Young noted that the return to creditors was projected to be in the range of 86.25p to 87.0p in the £. The Council has recognised impairment based on a recovery of 86.625% of its claim, (this is the mid-point of the range estimated by the administrators).

Following a dividend payment in November 2017, 85.5p in the £ has been distributed to Creditors.

In calculating the impairment the Council has therefore made the assumption that future recoveries will be received in May and November 2018 at 0.25p in the £, and May 2019 a 0.63p in the £.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 7 October 2008. Details of the Council's deposits with Kaupthing, Singer & Friedlander Ltd. and the associated impairment are shown below:

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/18 £'000	Carrying Amount £000s	Impairment £000s
04/01/2007	04/01/2011	£2m	5.46%	1,780	26.0	452
14/08/2007	16/08/2010	£2m	6.35%	1,727	25.2	465

### LBI hf (formerly Landsbanki hf)

Following the sale in February 2014 of the Landsbanki claim, the Council has no outstanding assets or liabilities in relation to Landsbanki. 92% of the amounts originally deposited was recovered.

### Glitnir Bank hf

The Council now has no outstanding assets or liabilities in relation to this deposit. The total return achieved in relation to this investment was 101% of the amounts originally deposited.

## Note 45: Nature and Extent of Risks Arising from Financial Instruments

### Key Risks

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

- **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;
- **Re-financing risk:** the possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk:** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

# Notes to the Accounts

## Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice (the 2011 CIPFA Treasury Management in the Public Service: Code of Practice was adopted on 21 February 2012 by the members of the County Council)
- By approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

For the 2017/18 financial year the prudential indicators and treasury management strategy were reported and approved at the County Council's meeting on the 21 February 2017. The annual treasury management strategy outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure, which can be summarised as follows:

- To reduce exposure of cash balances by funding the 2017/18 Capital Programme from balances and seeking opportunities to repay debt early,
- The majority of balances to be held in specified investments i.e. with UK government or local authorities and institutions with high credit ratings, with limits on non-specified investments by type, amount and duration,
- Institution and Group limits are applied,
- Only lending to banks outside the UK if the country has a sovereign rating of AA+,
- Setting a credit rating criteria framework that provides size and duration limits for investments that are applied as credit ratings change to reflect perceived risk to security of investments.
- The criteria specify action to be taken upon credit rating downgrades, or notice of potential downgrades.

Throughout 2017/18 the Council operated to criteria within those laid out in the Treasury Management Strategy.

Actual performance is reported annually to the Council's Audit Committee. These policies are implemented by a central treasury team. The Council maintains 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 through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's treasury management strategy for 2017/18 set out the minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard and Poor's.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table (from an average of the default rates from Fitch, Moody's and Standard and Poor's) gives details of corporate finance average cumulative default rates (including financial organisations) for the period 1981–2015 on investments. The risk of default by trade debtors is based on the average amount of debt written off as a percentage of total debt over the last six financial years (2011/12 to 2017/18).

## Notes to the Accounts

Estimated maximum exposure to default 2017 £000s	Deposits with banks and financial institutions	Amount at 31 March 2018 £000s	Historical experience of default %	Adjustment for market conditions at 31 March 2018 ^	Estimated maximum exposure to default 2018 £000s
(a * b)		(a)	(b)	(c)	(a * b)
2 UK Local Authorities		23,006	0.01%	1.18	2
20 AAA rated counterparties		78,536	0.04%	1.18	32
1 AA rated counterparties		-	0.01%	1.18	-
10 A rated counterparties		9,963	0.06%	1.18	6
- BBB rated counterparties		-	0.13%	1.18	-
- Other counterparties		30,942	0.00%	1.18	-
330 Trade debtors		103,750	-0.33%	1.18	(344)
<b>362</b>		<b>246,197</b>			<b>(303)</b>

The table above excludes the outstanding balances on Icelandic investments (set out in Note 44).

### Financial Assets that are past due

The Council does not generally allow credit for its trade debtors. The amount of debt past its due date for payment amounted to £20.3m. The past due amount can be analysed by age as follows:

31 March 2017 £000s		31 March 2018 £000s
2,209	Not later than three months	4,596
2,195	Three to six months	4,793
9,169	More than six months	10,948
<b>13,573</b>		<b>20,337</b>

### Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

### Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters.

# Notes to the Accounts

This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

31 March 2017		31 March 2018
£000s		£000s
32,909	Not later than one year	2,848
-	One to two years	249
3,145	Two to five years	5,396
8,500	Five to ten years	9,500
249,122	More than ten years	245,615
<b>293,677</b>		<b>263,608</b>

The maturity analysis of financial assets is as follows:

31 March 2017		31 March 2018
£000s		£000s
96,908	Less than 1 year	149,814
-	One to two years	-
-	Two to three years	-
-	More than three years	-
<b>96,908</b>		<b>149,814</b>

The Icelandic investments are included in the table above on the basis of the anticipated recoveries over future years; at 31 March 2018 all further Iceland recoveries are expected to take place within the next 24 months.

## Market risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates could have the following effects:

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of

## Notes to the Accounts

fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

According to this assessment strategy, at 31 March 2018, if interest rates had moved by 1% with all other variables held constant, the financial effect would be:

2016/17	2016/17		2017/18	2017/18
1% Increase	1% Decrease		1% Increase	1% Decrease
£000s	£000s		£000s	£000s
256	-	Increase in interest payable on variable rate borrowings	170	-
(1,145)	1,029	Increase in interest receivable on variable rate investments	(1,035)	681
-	-	Increase in government grant receivable for financing costs	-	-
<b>(889)</b>	<b>1,029</b>	<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(865)</b>	<b>681</b>

The impact of a 1% decrease in interest rates is not equivalent to a 1% increase in rates because, with bank base rate at only 0.5% on 31st March 2018, the rate of interest on a number of investments is below 1% and could not, therefore, effectively fall by a further 1%. In addition, the borrowing figures contain a number of LOBO Loans which are only likely to be exercised if interest rates increase.

### Price risk

At the 31 March 2018 the Council had £30m invested across 6 pooled funds. £10m was held in a property fund, £6m in an equity fund, £10m in two bond funds, and £4m in two multi-asset funds. This element of the Council's portfolio is therefore now exposed to the risk of changing unit prices on these investments. These changing unit prices are influenced by the underlying asset types, equity prices, bond prices and commercial property prices. A 5% net fall across these different fund unit prices would result in a £1.5m fall in the Council's investment value. This movement would not be reflected in the Comprehensive Income and Expenditure Statement (CIES), instead the movement would be reflected in the Available for Sale Reserve. On sale any overall loss or gain over the life of the investment would then be recognised by moving from the Available for Sale Reserve, via the CIES to the General fund. To minimise the risk of volatility in unit prices resulting in a capital loss the Council has diversified across a number of asset classes and intends to hold these funds for the long term.

### Foreign exchange risk

At 31 March 2018 the Council had no investments denominated in foreign currency.

# Notes to the Accounts

## Note 46: Trust Funds

The Council acts as Treasurer and Financial Adviser primarily to a number of educational prize funds, endowments, scholarships and bequests that generally have specific trustees to manage them. Capital is invested in accordance with the trustee's instructions in a range of external investments or, if held as cash by the Council, such balances will earn interest at the market seven-day rate. These funds do not represent assets of the Council and have not been included in the balance sheet. As at 31<sup>st</sup> March 2018 the total value of educational endowments was £0.33m (31<sup>st</sup> March 2017 - £0.58m).

## Note 47: Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess 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.

### Central Government

The central UK government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in Note 29. Grant receipts outstanding as at 31 March 2018 are shown in Note 38. These grants are in addition to the Council's share of the revenue support grant and redistributed business rates income as calculated by central government.

### Other Public Bodies

In addition to the relationship with Central Government, Hertfordshire County Council has relationships with various NHS bodies. The significant transactions are disclosed in Notes 31 - Agency Services and Note 32 - Pooled Budgets.

### Hertfordshire County Council Pension Fund

The Council administers the Pension Fund on behalf of its employees and those of District Councils within the county and other admitted bodies. On 1 April 2010, pension fund cash was separated from Hertfordshire County Council funds and from that date pensions cash was separately invested and all interest received applied directly to the Pension Fund.

### Locality Budgets

Each elected member of the County Council has £10,000 per year to spend on grants in their local community. The approach is flexible and based on two fundamental principles.

The funding from the Locality Budgets scheme must be used for purposes which promote the social, economic or environmental wellbeing of Hertfordshire having regard to the Council's sustainable community strategy. Locality Budgets cannot be used for purposes which would be contrary to the County Council's prevailing policies or be used for any purposes prohibited by law.

### Members and Officers

In addition the following members and officers sit on the Boards of the following organisations. The table overleaf records the total value of transactions in the year with these organisations.

## Notes to the Accounts

Total of Council's transactions with the organisation 2016/17	Name	Organisation	Total of Council's transactions with the organisation 2017/18
£000s			£000s
107	Steve Drury (16/17 only)	Ascend Charity	na
1,467	Roma Mills (16/17 only)	Carers in Hertfordshire	na
35	Roy Wilsher (16/17 only)	Chief Fire Officers' Association	na
18	Ian Reay (16/17 & 17/18)	Chilterns Conservation Board	14
na	Asif Khan (17/18 only)	College of Haringey, Enfield and North East London	39
na	Richard Roberts (17/18 only)	Community Action Dacorum	444
12	Ron Tindall (16/17 & 17/18)	Hertfordshire Domestic Abuse Helpline	15
192	Terry Douris (16/17 only), David Andrews (16/17 & 17/18)	Hertfordshire Groundwork Trust	264
10,148	Claire Cook (16/17 only), Steven Pilsworth (17/18 only)	Hertfordshire Schools Building Partnership (HSBP)	10,528
748	Peter Maguire and Michael Collier (16/17 & 17/18)	Herts Catering Ltd (HCL)	397
7,002	Michael Collier (16/17 & 17/18)	Herts For Learning (HFL)	4,094
9	Roy Wilsher (16/17 only)	Herts in Trust	na
16	Andrew Stevenson (16/17 only)	Herts Probation Trust	na
na	Annie Brewster (17/18 only)	Herts Sports Partnership	67
86	Alan Searing (16/17 only)	Herts Young Mariners Base (HYMB)	na
na	Alan Plancey (17/18 only)	Jewish Care	241
n/a	Mike Collier (17/18 only)	Police & Crime Commissioner (PCC)	79
9	Jenny Coles (16/17 & 17/18)	Research in Practice	14
11	Fiona Hill (16/17 & 17/18)	Royston Day Centre	11
21	Sandy Walkington (16/17 & 17/18)	St Albans Bereavement Network	21
134	Claire Cook (16/17 only), Iain MacBeath (16/17 & 17/18), Derrick Ashley (16/17 & 17/18) and Steven Pilsworth (17/18 only)	SureCare Supplies Ltd	911
na	Michael Hearn (17/18 only)	The Hearn Training Company Limited	22
341	Robert Gordon (16/17 only), Jim McManus (16/17 only), Paul Zukowskyj (16/17 & 17/18), Tim Hutchings (16/17 & 17/18) and Steve Jarvis (17/18 only)	University of Hertfordshire	1,442
na	Tim Williams (17/18 only)	Watford (sheltered) Workshops Ltd	74
72	Derek Scudder (16/17 only)	Watford Sheltered Workshops Ltd	na
15	Sara Johnston (16/17 only)	Welwyn Hatfield Women's Refuge	na
<b>20,444</b>	<b>Total</b>		<b>18,676</b>

\* The 2016/17 comparative figure for HSBP was incorrectly shown as £150k in last year's statement of accounts, and has been updated in the table above.

The totals stated in the table above reflect the net transactions with each organisation respectively (i.e. expenditure less income) and exclude transactions with HCC schools. All totals are net expenditure, with the exception of Surecare Supplies, which is net income.

## Notes to the Accounts

Where there is a new entry for 2017/18, either because there was no relationship in the prior year, or the relationship was judged immaterial, the comparative level of total transactions with the organisation have not been included in the 2016/17 details. The amounts disclosed in the 2016/17 accounts have been shown for comparative purposes even if no ongoing relationship exists.

### Note 48: Investments in Companies and Group Relationships

The Council holds the following investments in companies. These investments have been considered for inclusion within the Council's group boundary, as explained in the accounting policy for Group Accounts. However, group accounts have not been prepared consolidating Hertfordshire Catering Limited as the adjustments required to consolidate into group accounts were not considered material. The Council's interests in other companies are not regarded as material and have therefore also not been included.

Name	Nature of Business	Owned %	Nominal Value £
Hertfordshire Catering Ltd	A wholly owned and controlled local authority limited company that provides a school meals service.	100%. Not consolidated into Group Accounts due to immaterial value of transactions*	£100,000
Herts for Learning Ltd	A schools company owned by the Council, and schools (both maintained and academies) within Hertfordshire.	The Council owns 19% of shares, with maintained Hertfordshire schools owning 65%.	£ 3,150
Surecare Supplies Ltd	A wholly owned and controlled local authority limited company which provides access to high value for money contracts and a wide range of products and services for care homes	Wholly owned (have bought the one and only share)	£ 10,000
East of England Trading Standards Association	A company created to draw down funding to deliver certain regional projects, composed of eleven local authorities.	9.00%	£ 1
Herts Living Ltd	A wholly owned and controlled local authority limited company which buys, sells and develops real estate properties.	Wholly owned	£175,000

*\* Although the generated turnover for HCL is material, once inter-company transactions are considered, the resulting adjustment to produce Group Accounts is neither material in nature, nor enhances the overall value and clarity of the accounts for Stakeholders. As a result, HCL has not been consolidated into HCC's group accounts.*

Copies of the accounts for these companies can be obtained from the Chief Legal Officer, Hertfordshire County Council, County Hall, Hertford SG13 8DQ (Contact telephone: 01992 555527).

In addition to the consideration of these companies, maintained schools within Hertfordshire are deemed under IFRS 10 to be entities under the Council's control, and so fall within the group boundary. The Code provides a specific adaptation to IFRS 10 and IAS27, under which schools are consolidated within the single entity accounts. The summary position of these schools at 31 March 2018, by category, is shown in the following table:

## Notes to the Accounts

	Number of schools	Expenditure £'000s	Income £'000s	Surplus/Deficit at 31/03/18 £'000s
<b>Nursery</b>	<b>14</b>	<b>10,906,515</b>	<b>10,984,780</b>	<b>(78,265)</b>
Community	14	10,906,515	10,984,780	(78,265)
<b>Primary</b>	<b>364</b>	<b>446,597,755</b>	<b>443,213,182</b>	<b>3,384,573</b>
Academy	21	20,336,749	20,101,615	235,133
Community	218	298,647,211	296,130,545	2,516,666
Voluntary Aided	83	82,067,013	81,667,376	399,637
Voluntary Controlled	33	30,345,925	30,336,883	9,042
Foundation	9	15,200,857	14,976,762	224,095
<b>Secondary</b>	<b>20</b>	<b>106,688,368</b>	<b>106,498,125</b>	<b>190,243</b>
Academy	1	1,480,810	1,655,844	(175,034)
Community	3	19,694,413	19,505,776	188,637
Voluntary Aided	3	15,169,044	15,248,881	(79,837)
Voluntary Controlled	1	2,109,630	2,137,533	(27,904)
Foundation	12	68,234,472	67,950,090	284,381
<b>Special *</b>	<b>20</b>	<b>41,375,482</b>	<b>40,928,724</b>	<b>446,759</b>
Community	19	39,073,501	38,588,611	484,891
Foundation	1	2,301,981	2,340,113	(38,132)
<b>Education Support Centres *</b>	<b>7</b>	<b>13,067,027</b>	<b>13,334,433</b>	<b>(267,407)</b>
Community	7	13,067,027	13,334,433	(267,407)
<b>Total</b>	<b>425</b>	<b>618,635,147</b>	<b>614,959,243</b>	<b>3,675,904</b>

\* includes Edwinstree Base Unit

### Note 49: Acquired and Discontinued Operations

There have been no Acquired or Discontinued Operations during 2017/18

# **Local Government Pension Fund Accounts**

# Local Government Pension Fund Accounts

## Local Government Pension Fund Accounts

The Council is the Administering Authority for the Hertfordshire Pension Fund ("Pension Fund") which is managed and administered in accordance with the Local Government Pension Scheme Regulations 2013. These accounts give a stewardship report of the financial transactions of the Pension Fund during 2017/18, and of the disposition of its assets at 31 March 2018.

The Local Government Pension Scheme ("Scheme") is a funded scheme, financed by contributions from employees and employers and by earnings from investments. The Pension Fund has published a Funding Strategy Statement, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment.

The Pension Fund covers staff employed by the Council (including maintained schools), the ten District Councils in Hertfordshire and 309 other bodies. The Pension Fund is available to all local authority employees within Hertfordshire, except teachers and fire personnel for whom separate pension arrangements apply. The Pension Fund provides pensions and other benefits for employees, their spouses, civil partners, nominated co-habiting partners or dependants. The income of the Pension Fund arises from contributions by the employees and by their employers and from dividends and interest on investments. The membership of the Pension Fund at 31 March 2018 was as follows:

31 March 2017		31 March 2018
33,447	Contributors	35,812
26,019	Pensioners	26,856
39,744	Deferred benefits (former contributors)	41,409
<b>99,210*</b>	<b>Total Members</b>	<b>104,077</b>

\*The 2016/17 membership figures have been updated from those published in the 2016/17 Annual Report following late notifications of changes of membership. This is to ensure that the most accurate figures available are reported.

The table below provides a summary of the Pension Fund accounts for the year 2017/18:

2016/17 £000s		2017/18 £000s
<b>3,584,250</b>	<b>Value of the Pension Fund at 1 April</b>	<b>4,243,371</b>
23,978	Net additions / (withdrawals) from dealing with those directly involved in the scheme	27,532
(14,786)	Management expenses	(14,629)
649,930	Net returns on investments	242,744
<b>659,121</b>	<b>Increase / (Decrease) in the Pension Fund during the year</b>	<b>255,646</b>
<b>4,243,371</b>	<b>Value of the Pension Fund at 31 March</b>	<b>4,499,017</b>

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,584 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £336 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the Funding Strategy Statement (FSS). Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

# Local Government Pension Fund Accounts

The Administering Authority publishes a separate Annual Report and Statement of Accounts for the Pension Fund which provides detailed information and is accessible from the Pension Fund website at <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>.

## 1. Fund Account

2016/17		Note	2017/18	
£000s	£000s		£000s	£000s
34,359	Contributions receivable from members	1	35,382	
131,199	Contributions receivable from employers	1	136,379	
14,492	Transfers in from other schemes	2	17,635	
4	Other income		112	
	<b>180,055 Additions from dealings with those directly involved in the Scheme</b>			<b>189,508</b>
(117,876)	Pensions		(122,729)	
(25,347)	Commutation of pensions and lump sum retirement benefits		(22,904)	
(2,863)	Lump sum death benefits		(2,468)	
	<b>(146,087) Benefits payable to members</b>	3		<b>(148,102)</b>
(629)	Refunds of contributions		(626)	
(321)	State scheme premiums		(58)	
(9,041)	Transfers out to other schemes	4	(13,190)	
	<b>(9,990) Payments to and on account of leavers</b>			<b>(13,874)</b>
	<b>23,978 Net additions / (withdrawals) from dealings with those directly involved in the Scheme</b>			<b>27,532</b>
(1,558)	Administrative costs		(1,491)	
(1,037)	Oversight and governance costs		(1,166)	
(12,190)	Investment management expenses	5	(11,972)	
	<b>(14,786) Management expenses</b>			<b>(14,629)</b>
40,343	Investment Income	6	39,655	
(291)	Taxes on income		(167)	
609,877	Profits and losses on disposals of investments and changes in value of investments	7	203,256	
	<b>649,930 Net return on investments</b>			<b>242,744</b>
	<b>659,121 Net increase / (decrease) in the net assets available for benefits during the year</b>			<b>255,646</b>

# Local Government Pension Fund Accounts

## 2. Net Assets Statement

31 March 2017		Note	31 March 2018	
£000s	£000s		£000s	£000s
1,148,718	Equities		815,111	
	<u>Pooled investment vehicles</u>			
286,375	Pooled property investments		295,919	
1,365,648	Unitised insurance policies		1,844,181	
598,057	Unit trusts		606,178	
131,052	Private Equity		116,026	
605,223	Other managed funds		685,216	
1,709	Derivative contracts	9	16	
67,496	Cash deposits		101,564	
4,006	Other investment balances		13,501	
	<b>4,208,283 Total investment assets</b>	8a	<b>4,477,710</b>	
(6)	Derivative contracts	9	(676)	
(125)	Other investment balances		(5,854)	
	<b>(132) Total investment liabilities</b>		<b>(6,530)</b>	
	<b>4,208,151 Total investment assets and liabilities</b>	8a	<b>4,471,181</b>	
2,217	Long term assets	10	1,478	
	<b>2,217 Total non-current assets and liabilities</b>		<b>1,478</b>	
38,750	Current assets	11	29,780	
(5,747)	Current liabilities	12	(3,422)	
	<b>33,002 Total current assets and liabilities</b>		<b>26,358</b>	
	<b>4,243,371 Net assets of the Scheme available to fund benefits as at 31 March</b>		<b>4,499,017</b>	

Owen Mapley  
Director of Resources

# Local Government Pension Fund Accounts

## 3. Statement of Accounting Policies

### Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards, as amended for the UK public sector.

The accounts summarise the transactions for the 2017/18 financial year and net assets of the Pension Fund as at 31 March 2018. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits at the Net Assets Statement date is detailed in Note 16.

### Valuation of Assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net asset statement on the date the Pension Fund becomes party to the contractual acquisition of the asset or to the liability. From this date, any gains or losses arising from changes in the fair value of the asset or liability are recognised in the Fund Account. The values of investments as shown in the net asset statement have been determined at fair value in accordance with the regulation of the code and IFRS13. The values on investments as shown in the net assets statement have been determined as follows:

- Market-quoted securities, for which there is a readily available market price, are valued at bid price at the close of business on the net asset date.
- Fixed interest securities are recorded at net market value based on their current yields.
- Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are quoted by the respective Investment Managers. If only a single price is quoted, investments are valued at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- Unquoted investments for which market quotations are not readily available are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Indirect private equity investments are interests in limited partnerships and are stated at the partnership's estimate of fair value. Investments are valued based on the Pension Fund's share of the net assets of the private equity fund. For private equity limited partnerships there is usually a time delay in receiving information from the private equity Investment Managers. The valuations shown in the Net Assets Statement for these investments are the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date.
- Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract.
- Investment assets and liabilities include cash balances held by the Investment Managers and debtor and creditor balances in respect of investment activities as these form part of the net assets available for investment.
- Rights issues are processed on ex-date. If the value of the rights on ex-date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

### Cash and Cash Equivalents

Cash is cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than 24 hours. Cash equivalents comprise investments that are held to meet short-term liabilities rather than for investment or other purposes. These 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. Bank overdrafts, repayable on demand and which form an integral part of the County Council's treasury management function, are also included as a component of cash and cash equivalents.

### Foreign Currency Translation

All investments are shown in sterling. Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rate at the date of transaction. End of year spot market exchange rates are used to value foreign currency cash balances, market values of overseas investments and purchases and sales outstanding at the net asset date.

# Local Government Pension Fund Accounts

Gains and losses on exchange arising from foreign currency investment and cash balances are included within the Fund Account for the year.

## Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, allows the Administering Authority to charge directly to the Pension Fund any costs or expenses incurred in administering it. Management expenses are accounted for on an accruals basis and disclosed in accordance with the 2016 CIPFA guidance 'Accounting for Local Government Pension Scheme Management expenses' and analysed between administrative costs, oversight and governance costs and investment management expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management. Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2017/18, £56,579 was based on such estimates.

Investment management expenses include transaction costs relating to the purchase and sale of investments.

## VAT

The Pension Fund is exempt from VAT and is therefore able to recover such deductions. Investment management and administrative expenses are therefore recognised net of any recoverable VAT.

## Benefits Payable

Pension and lump sum benefits payable include all amounts known to be due as 31 March 2018. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

## Contributions

Normal contributions, both from members and employers, are accounted for on an accruals basis, at the percentage rate certified by the Pension Fund Actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on an accruals basis in accordance with the period to which they relate or are due, or on a cash basis if the payment is an additional contribution in excess of the minimum required by the Pension Fund Actuary and set out in the Rates and Adjustments Certificate.

Pension strain contributions and employers' augmentation contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

## Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have joined or left the Pension Fund during the financial year and are calculated in accordance with Scheme regulations. Transfer values are treated on a cash basis when they are paid or received, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## Investment Income

Investment income earned by the Pension Fund on its investments is recognised as follows:

- Interest income is recognised in the Fund Account as it accrues, 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 costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement under other investment balances.
- Investment income earned on pooled investment vehicles that are accumulation funds, where income is retained and automatically reinvested, are shown as changes in the value of investments in the Fund Account.
- Income from private equity investments are reported on the quarterly valuations provided by the private equity Investment Managers. Income is recognised in the period in which the valuation is received.

## Local Government Pension Fund Accounts

- Distributions from other pooled investment vehicles are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.
- Changes in the value of investment income are accounted for as income and comprise all realised and unrealised profits and losses during the year.

### Taxation

The Pension 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 the proceeds of investments sold. Tax is deducted from dividends paid on UK equities, which is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Provision is made for the estimated sums to be recovered and income grossed up accordingly. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

### Security Lending

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) permit the Pension Fund to lend up to 35% of its securities from its portfolio of stocks to third parties in return for collateral. The Pension Fund has set a limit of 20% of the total Fund value. The securities on loan are included in the Net Assets Statement to reflect the Pension Fund's continuing economic interest of a proprietary nature in these securities.

### Additional Voluntary Contribution Investments

The County Council has arrangements with the Standard Life Assurance Company and the Equitable Life Assurance Society to enable employees to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. AVCs are invested separately from the Pension Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. As these contributions do not form part of the Pension Fund's investments, the value of AVC investments are excluded from the Pension Fund's Net Assets Statement in accordance with regulation 4(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

### Prior period adjustments

There were no material prior period adjustments in 2017/18 that require disclosure.

### Events after the Net Asset Date

There were no material post balance sheet events after 2017/18 that require disclosure.

### Critical judgements in applying accounting policies and significant estimation techniques

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

- **Valuation of private equity investments:** Unquoted private equities are valued by the Investment Managers using the International Private Equity and Venture Capital Valuation Guidelines. These are inherently based on forward looking estimates and judgements involving many factors.
- **Pension fund liability:** The Pension Fund liability is calculated every three years by the Pension Fund Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the net asset date and the amounts reported for revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those assumptions and estimates. The key judgements and estimation uncertainty that

## Local Government Pension Fund Accounts

have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Valuation of private equity investments:** The valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date. This may result in a variance between the valuation included in the Financial Statements and the actual value of the Pension Fund's investments as at 31 March 2018 issued by each of the private equity Investment Managers. At 31 March 2018 private equity investments totalled £181.3 million (including private equity investments held within the Global Alternatives Fund).
- **Contractual commitments:** Commitments to the private equity funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each private equity fund at 31 March 2018 has been converted to base currency, based on exchange rates applicable at the net asset date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be different from the estimates.
- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits and the effect on the pensions liability of changes in individual assumptions are shown in Note 16.
- **Provision for doubtful debt:** In 2017/18 a provision for doubtful debt was made of £95,291. The provision was created for all invoiced debt at 31 March 2018 of £460,143. The provision is based on the County Council's Income Collection and Debt Management Policy for providing for doubtful debt as follows:

Age of debt at 31 March 2018	Provision created
0 – 274 days	0%
275 – 456 days	35%
457 – 639 days	50%
Over 639 days	100%

# **Notes to the Local Government Pension Fund Accounts**

# Notes to the Local Government Pension Fund Accounts

## Note 1: Contributions Receivable

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<u>Members</u>		
34,013	Normal	35,088	
346	Additional	294	
	<b>34,359</b>		<b>35,382</b>
	<u>Employers</u>		
99,835	Normal	119,709	
29,307	Deficit funding	14,932	
2,057	Augmentation and early retirement strain costs	1,737	
	<b>131,199</b>		<b>136,379</b>
	<b>165,559</b>		<b>171,761</b>
	<b>Total members</b>		
	<b>Total employers</b>		
	<b>Total contributions receivable</b>		

Members' additional contributions represent contributions from members to purchase additional years of membership or pension in the Scheme.

Employers' normal contributions represent the ongoing contributions paid into the Pension Fund by employers in accordance with the Rates and Adjustments Certificate, issued by the Pension Fund Actuary. These reflect the cost of benefits accrued by current members over the year.

Employers' deficit funding includes:

- £13,399,237 (£25,716,071 in 2016/17) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's service contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement accessible from <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>.
- £1,532,960 (£3,089,442 in 2016/17) paid by employers in excess of the minimum contribution levels required by the Pension Fund Actuary in the Rates and Adjustments Certificate.
- £nil (£501,000 in 2016/17) termination payments where an employer had ceased to be a participating employer in the Pension Fund.

Contributions received are further analysed in the table below by type of employer.

2016/17		2017/18	
Employee	Employer	Employee	Employer
£000s	£000s	£000s	£000s
15,214	55,661	15,292	56,111
16,567	64,675	17,824	69,058
2,578	10,862	2,265	11,210
<b>34,360</b>	<b>131,199</b>	<b>35,382</b>	<b>136,379</b>
	<b>Total contributions receivable</b>		

# Notes to the Local Government Pension Fund Accounts

## Note 2: Transfers In from Other Schemes

The Pension Fund received £17,635,234 (£14,491,951 in 2016/17) in relation to individual members' transfers of benefits into the Pension Fund. No amounts were received during the year for group transfers from other schemes.

Transfers are shown on a cash basis, in accordance with the accounting policy.

## Note 3: Benefits Payable

2016/17		2017/18
£000s		£000s
64,208	Administering Authority	65,256
67,605	Other Scheduled Bodies	68,694
14,274	Admitted Bodies	14,152
<b>146,087</b>	<b>Total benefits payable</b>	<b>148,102</b>

## Note 4: Transfers Out to Other Schemes

2016/17		2017/18
£000s		£000s
8,556	Individual transfers	13,190
484	Bulk transfers	0
<b>9,041</b>	<b>Total Transfers out to other schemes</b>	<b>13,190</b>

## Note 5: Management Expenses

### Investment management expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of assets under management or as a fixed annual fee. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target. Performance targets are detailed within the Investment Strategy Statement, which is included in the main Pension Fund Annual Report 2017/18, available from the pension fund's website (<https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>).

Investment management expenses include transaction costs associated with the acquisition, issue or disposal of Pension Fund assets and associated financial instruments. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments set out in Note 7.

The Pension Fund's assets are held in custody by an independent custodian. The custodian is responsible for the safekeeping of the Pension Fund's financial assets, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.

## Notes to the Local Government Pension Fund Accounts

The Pension Fund's performance measurement service is provided by BNY Mellon. A detailed analysis of the Pension Fund's performance is shown in the Investment Performance Report contained within the main Pension Fund Annual Report, available from the Pension Fund's website listed above.

2016/17		2017/18
£000s		£000s
11,015	Management fees	11,430
963	Transaction costs	397
213	Custody fees	145
<b>12,190</b>	<b>Total investment management expenses</b>	<b>11,972</b>

An analysis of transaction costs by asset class is shown in the following table;

2016/17		2017/18
£000s		£000s
912	Equities	395
47	Property	2
4	Alternatives	1
<b>963</b>	<b>Total Transaction costs</b>	<b>397</b>

### Note 6: Investment Income

#### Analysis of investment income

2016/17		2017/18
£000s		£000s
-	Income from fixed interest securities	(2)
31,602	Dividends from equities	29,403
-	Income from bonds	-
	Income from pooled investment vehicles:	
6,845	Pooled property investments	7,457
1,318	Other pooled investments	1,513
157	Interest on cash deposits	861
421	Other investment income	423
<b>40,343</b>	<b>Total investment income</b>	<b>39,655</b>

An analysis of investment income accrued during 2016/17 and 2017/18 is shown in the following table.

2016/17					2017/18			
UK	Overseas	Global	Total		UK	Overseas	Global	Total
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
21,596	10,006	-	31,602	Equities	22,710	6,694	-	29,403
-	-	-	-	Bonds	-	(2)	-	(2)
6,230	1,318	615	8,163	Alternatives	7,358	1,513	99	8,970
182	(25)	-	157	Cash and cash equivalents	209	652	-	861
273	147	-	421	Other	226	196	-	423
<b>28,282</b>	<b>11,446</b>	<b>615</b>	<b>40,343</b>	<b>Total investment income</b>	<b>30,503</b>	<b>9,053</b>	<b>99</b>	<b>39,655</b>

# Notes to the Local Government Pension Fund Accounts

## Securities lending

The Pension Fund has an arrangement with its Custodian to lend securities from within its portfolio of stocks to third parties in return for collateral. Collateralised lending generated income of £252,855 for 2017/18 (£231,134 for 2016/17). This is included within investment income in the Fund Account.

The Pension Fund obtains collateral at 102% of the market value of securities loaned for collateral denominated in the same currency as that of the loans, or 105% in the case of cross-currency collateral. The market value of securities on loan and collateral held at 31 March 2018 and 2017 is shown in the following table, analysed by collateral type.

2016/17			2017/18		
Market value of securities on loan	Collateral held		Market value of securities on loan	Collateral held	
£000s	£000s		£000s	£000s	
20,721	21,390	Government debt and supranationals	22,407	23,590	
-	-	UK Equity DBV	-	-	
62,888	66,756	G10 debt	25,926	27,339	
<b>83,610</b>	<b>88,146</b>	<b>Total</b>	<b>48,333</b>	<b>50,929</b>	

## Note 7: Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

An analysis of investment transactions in 2017/18 is shown in the following table.

Value at 31 March 2017		Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Profits and losses on disposals and change in value of investments	Value at 31 March 2018
£000s		£000s	£000s	£000s	£000s
<u>Equities</u>					
729,797	UK	434,170	(754,799)	18,277	427,445
418,921	Overseas	60,786	(131,474)	39,433	387,666
<u>Pooled investment vehicles</u>					
286,375	Pooled property investments	17,110	(16,348)	8,783	295,919
1,365,648	Unitised insurance policies	2,177,391	(1,751,123)	52,265	1,844,181
598,057	Unit trusts	182,742	(190,898)	16,277	606,178
131,052	Private equity	27,942	(51,527)	8,560	116,026
605,223	Other managed funds	30,001	(2,756)	52,749	685,216
1,702	Derivative contracts (net)*	4,505	(15,122)	8,255	(660)
67,496	Cash deposits	0	35,423	(1,356)	101,564
<b>4,204,271</b>	<b>Subtotal</b>	<b>2,934,647</b>	<b>(2,878,625)</b>	<b>203,241</b>	<b>4,463,534</b>
<b>3,881</b>	<b>Net other investment balances**</b>	<b>-</b>	<b>3,716</b>	<b>-</b>	<b>7,647</b>
<b>4,208,151</b>	<b>Total investments assets / (liabilities)</b>	<b>2,934,647</b>	<b>(2,874,909)</b>	<b>203,241</b>	<b>4,471,181</b>

\* Net forward foreign exchange assets/liabilities (see note 8a)

\*\* Net other investment balances assets/liabilities (see note 8a)

# Notes to the Local Government Pension Fund Accounts

An analysis of investment transactions in 2016/17 is shown in the following table.

Value at 31 March 2016		Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Profits and losses on disposals and change in value of investments	Value at 31 March 2017
£000s		£000s	£000s	£000s	£000s
	<u>Equities</u>				
635,030	UK	111,394	(103,827)	87,199	729,797
456,887	Overseas	199,752	(376,461)	138,744	418,921
	<u>Pooled investment vehicles</u>				
269,692	Pooled property investments	199,052	(200,956)	18,586	286,375
1,094,728	Unitised insurance policies	69	-	270,850	1,365,648
544,296	Unit trusts	13,215	(2,953)	43,499	598,057
115,942	Private equity	23,276	(33,072)	24,905	131,052
383,660	Other managed funds	183,175	(1,990)	40,378	605,223
124	Derivative contracts (net)*	28,309	(11,938)	(14,792)	1,702
56,642	Cash deposits	10,347	-	508	67,496
<b>3,557,001</b>	<b>Subtotal</b>	<b>768,588</b>	<b>(731,197)</b>	<b>609,877</b>	<b>4,204,271</b>
<b>9,929</b>	<b>Net other investment balances**</b>				<b>3,881</b>
<b>3,566,930</b>	<b>Total investments assets / (liabilities)</b>				<b>4,208,152</b>

\* Net forward foreign exchange assets/liabilities (see note 8a)

\*\* Net other investment balances assets/liabilities (see note 8a)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments correspond to the sterling equivalent amount of forward foreign exchange settled during the year. The sale proceeds for cash deposits represent the net movement in cash held by the Investment Managers during the year. The change in market value of cash results from gains and losses on foreign currency cash transactions.

# Notes to the Local Government Pension Fund Accounts

## Note 8: Investment Analysis

### a) Analysis of investment assets at market value

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>Investment assets</b>		
	<u>Equities</u>		
729,797	UK quoted	427,445	
418,921	Overseas quoted	387,666	
	<b>1,148,718 Total equities</b>		<b>815,111</b>
135,690	UK property	149,040	
764	Overseas property	44	
149,921	Global property	146,835	
	<b>286,375 Pooled property investments</b>		<b>295,919</b>
136,949	UK equity funds	139,027	
743,353	Overseas equity funds	778,607	
485,345	UK Index Linked Gilts Fund	926,546	
	<b>1,365,648 Total unitised insurance policies</b>		<b>1,844,181</b>
7,851	UK equity unit trusts	-	
409,726	Global Core Plus Bond Fund	606,178	
180,480	Global Absolute Return Bond Fund	-	
	<b>598,057 Total unit trusts</b>		<b>606,178</b>
131,052	UK private equity	116,026	
	<b>131,052 Total private equity</b>		<b>116,026</b>
16,485	UK equity	17,233	
192,944	Overseas equity	242,207	
395,794	Global Alternatives Fund	425,776	
	<b>605,223 Other managed funds</b>		<b>685,216</b>
1,709	Forward foreign exchange	16	
	<b>1,709 Total derivatives</b>		<b>16</b>
67,496	Cash deposits	101,564	
	<b>67,496 Total Cash</b>		<b>101,564</b>
-	Amounts receivable from the sale of investments	-	
4,006	Investment income due	13,501	
	<b>4,006 Total other investment balances</b>		<b>13,501</b>
	<b>4,208,283 Total investment assets</b>		<b>4,477,710</b>

Table continues overleaf

## Notes to the Local Government Pension Fund Accounts

2016/17		2017/18	
£000s	£000s	£000s	£000s
	<b>Investment liabilities</b>		
(6)	Forward foreign exchange contracts	(676)	
	<b>(6) Total derivatives contracts</b>		<b>(676)</b>
(111)	Amounts payable for the purchase of investments	(5,854)	
(14)	Non recoverable tax payable	-	
	<b>(125) Total other investment balances</b>		<b>(5,854)</b>
	<b>(131) Total investment liabilities</b>		<b>(6,530)</b>
<b>4,208,151</b>	<b>Total investment assets and liabilities at market value</b>		<b>4,471,181</b>

Six pooled holdings exceeded 5% of the total investment assets and liabilities available to fund benefits and 5% of their asset class at 31 March 2018; the Baillie Gifford Long Term Global Growth Fund, the UBS Over 5yr Index Linked Gilts Fund, the Legal & General Over 5yr Index Linked Gilts Fund, the Royal London Core Plus Bond Fund, the UBS North America Equity Index Fund, and the Crown HCC Segregated Portfolio (LGT Capital Alternatives). Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

Investment assets and liabilities at the Net Asset date are further analysed by asset class in the following table.

2016/17					2017/18			
UK	Overseas	Global	Total		UK	Overseas	Global	Total
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
891,100	1,355,199	-	2,246,299	Equities	583,705	1,408,480	-	1,992,185
895,072	-	180,480	1,075,552	Bonds	1,532,724	-	-	1,532,724
135,690	131,816	545,715	813,221	Alternatives	149,040	116,070	572,612	837,722
60,137	7,359	-	67,496	Cash and cash equivalents	89,311	12,260	(7)	101,564
2,431	1,449	1,702	5,583	Other	730	6,917	(660)	6,987
1,984,430	1,495,823	727,898	4,208,151	Total assets and liabilities	2,355,509	1,543,727	571,944	4,471,181

# Notes to the Local Government Pension Fund Accounts

## b) Analysis by Investment Manager

The value of investments held by each Investment Manager on 31 March were:

31 March 2017			31 March 2018		
£000s	%		£000s	%	
471,377	11.2	Allianz Global Investors Europe GmbH	440,145	9.8	
591,968	14.1	Baillie Gifford & Co.	666,792	14.9	
304,631	7.3	CBRE Global Collective Investors (UK) Ltd.	330,382	7.4	
99,001	2.4	Harbour Vest Partners, LLC	89,447	2.0	
180,480	4.3	Henderson Global Investors Ltd.	-	0.0	
369	0.0	JP Morgan Asset Management (UK) Ltd.	-	0.0	
341,777	8.1	Jupiter Asset Management Ltd.	375	0.0	
1,365,648	32.5	Legal & General Assurance (Pensions Management) Limited	369,123	8.3	
395,794	9.4	LGT Capital Partners (Ireland) Ltd	425,776	9.5	
7,144	0.2	Pantheon Ventures	17,537	0.4	
687	0.0	Permira Advisers LLP	690	0.0	
409,910	9.7	Royal London Asset Management Ltd.	606,361	13.6	
38,882	0.9	Standard Life Investments Ltd.	44,284	1.0	
-	0.0	TTP Venture Managers Ltd.	-	0.0	
-	0.0	UBS Group AG	1,479,949	33.1	
483	0.0	Residual funds from previous portfolios	319	0.0	
<b>4,208,151</b>	<b>100</b>	<b>Funds externally managed</b>	<b>4,471,181</b>	<b>100</b>	
<b>35,219</b>		<b>Funds held at Hertfordshire County Council and non-investment balances</b>	<b>27,836</b>		
<b>4,243,371</b>		<b>Net Assets of the Scheme</b>	<b>4,499,017</b>		

The market values in table Note 8(b) include the value of investments, cash and net current assets held by each Investment Manager at 31 March. The funds held by Hertfordshire County Council include net current assets, long term assets and cash required to manage the cash flow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by outgoing Investment Managers following the review of the Pension Fund's Investment Strategy.

## c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund's assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

# Notes to the Local Government Pension Fund Accounts

## Note 9: Derivatives

The Pension Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Pension Fund does not hold derivatives for speculative purposes.

### Forward foreign exchange contracts

Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties and are used to hedge against foreign currency movements. Forward foreign exchange contracts are disclosed in the accounts at fair value, which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

The counterparties at 31 March 2017 and 31 March 2018 were UK and overseas investment banks and the contracts held with these investment banks are analysed in the following table by duration.

2016/17				Duration	2017/18			
Currency Payable	Currency Receivable	Fair Value			Currency Payable	Currency Receivable	Fair Value	
		Asset	Liability				Asset	Liability
£000s	£000s	£000s	£000s		£'000	£000s	£000s	£000s
-	-	-	-	Within 1 month	(1,299)	1,297	-	(2)
-	-	-	-	0-3 months	-	-	-	-
(137,087)	138,790	1,709	(6)	3-6 months	(135,320)	134,662	16	(673)
(137,087)	138,790	1,709	(6)	Total	(136,619)	135,959	16	(676)

## Note 10: Long Term Assets

Long term assets of £1,478,000 in the Net Assets Statement (£2,217,000 for 2016/17) relates to the bulk transfer of Magistrates Court staff to the civil service pension scheme in 2005 in accordance with the terms of transfer agreement.

## Note 11: Current Assets

2016/17		2017/18
£000s		£000s
13,514	Contributions due from employers	13,831
8,516	Cash and cash equivalents	15,087
440	VAT due from HMRC	379
16,391	Other debtors and prepayments	577
(112)	Provision for doubtful debt	(95)
<b>38,750</b>	<b>Total current assets</b>	<b>29,780</b>

Cash and cash equivalents represent investments in money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

# Notes to the Local Government Pension Fund Accounts

Current assets are further analysed by type of debtor organisation.

2016/17		2017/18	
£000s	£000s	£000s	£000s
2,930		3,321	
8,304		9,358	
5		5	
19,107		2,103	
	<b>30,345</b>		<b>14,788</b>
(112)		(95)	
8,516		15,087	
	<b>8,404</b>		<b>14,992</b>
	<b>38,750</b>		<b>29,780</b>

## Note 12: Current Liabilities

2016/17		2017/18	
£000s		£000s	
2,385	Tax payable to HMRC	1,301	
1,085	Investment management fees	868	
449	Other creditors	396	
1,552	Unpaid benefits	354	
278	Cash and cash equivalents	502	
<b>5,747</b>	<b>Total current liabilities</b>	<b>3,422</b>	

Cash balances in the table above include cash balances less cash in transit in the form of unrepresented cheques and payments committed by BACs at the net asset date.

Current liabilities are further analysed by type of creditor organisation.

2016/17		2017/18	
£000s		£000s	
2,385	Central government bodies	1,301	
-	Other local authorities	-	
3,085	Other entities and individuals	1,619	
278	Cash and cash equivalents	502	
<b>5,747</b>	<b>Total Current Liabilities</b>	<b>3,422</b>	

# Notes to the Local Government Pension Fund Accounts

## Note 13: Fair Value – Basis of Valuation

The basis of the valuation of each classes of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Equities quoted</b>	Level 1	Published bid market price ruling on the final day of accounting period	N/A	N/A
<b>Other managed funds – equities</b>	Level 2	Closing single price	NAV based pricing set on a forward pricing basis	N/A
<b>Pooled property investments</b>	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV based pricing set on a forward pricing basis	N/A
<b>Unitised insurance contracts – equities</b>	Level 2	Price of a recent transaction for an identical asset	Inputs other than quoted prices that are observable, either directly or indirectly	N/A
<b>Unitised insurance contracts – bonds</b>	Level 2	Price of a recent transaction for an identical asset	Inputs other than quoted prices that are observable, either directly or indirectly	N/A
<b>Unit trusts – equities</b>	Level 2	Average of broker prices	Evaluated price feeds	N/A
<b>Unit trusts – bonds</b>	Level 2	Closing bid, mid and offer prices are published	NAV based pricing set on a forward pricing basis	N/A
<b>Global Alternatives fund</b>	Level 3	Closing single price	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
<b>Private equity</b>	Level 3	At fair value as determined by the General Partner in accordance with the terms of the Partnership Agreement and GAAP	Manager's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, adjustments to current prices for similar properties, valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis

# Notes to the Local Government Pension Fund Accounts

## Note 14: Financial Instruments

### a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

All financial instruments are carried in the balance sheet at their fair value. The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

31 March 2017			31 March 2018		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000s	£000s	£000s	£000s	£000s	£000s
1,148,718	-	-	Equities	815,111	
286,375	-	-	Pooled property investments	295,919	
1,365,648	-	-	Unitised insurance policies	1,844,181	
598,057	-	-	Unit trusts	606,178	
131,052	-	-	Private equity	116,026	
605,223	-	-	Other managed funds	685,216	
1,709	-	-	Derivative contracts	16	
-	67,496	-	Cash deposits	-	101,564
4,006	-	-	Other investment balances	13,501	-
-	2,217	-	Long term assets	-	1,478
-	38,750	-	Current assets	-	29,780
<b>4,140,787</b>	<b>108,463</b>	-	<b>Total financial assets</b>	<b>4,376,147</b>	<b>132,821</b>
(6)	-	-	Derivative contracts	(676)	
(125)	-	-	Other investment balances	(5,854)	
-	-	(5,747)	Current liabilities	-	(3,422)
<b>(132)</b>	-	<b>(5,747)</b>	<b>Total financial liabilities</b>	<b>(6,530)</b>	<b>(3,422)</b>
<b>4,140,655</b>	<b>108,463</b>	<b>(5,747)</b>	<b>Total</b>	<b>4,369,617</b>	<b>(3,422)</b>

# Notes to the Local Government Pension Fund Accounts

## b) Net gains and losses on financial instruments

2016/17		2017/18
£000s		£000s
609,370	Fair value through profit and loss	204,612
508	Loans and receivables	(1,356)
<b>609,877</b>	<b>Total gains and losses</b>	<b>203,256</b>

## c) 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. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed securities are shown at bid prices. The bid value of the investment is based on the 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 a significant effect on the instrument's valuation is not based on observable market data.

The following tables provide an analysis of the financial assets and liabilities of the Pension Fund analysed across levels 1 to 3, based on the level at which the fair value is observable, along with comparative figures for 2017.

	31 March 2018			
	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
<u>Financial assets</u>				
Fair value through profit and loss	828,611	3,005,733	541,802	4,376,147
Loans and receivables	132,821	-	-	132,821
<u>Financial liabilities</u>				
Fair value through profit and loss	(5,854)	(676)	-	(6,530)
Financial liabilities at amortised cost	(3,422)	-	-	(3,422)
<b>Net financial assets</b>	<b>952,157</b>	<b>3,005,057</b>	<b>541,802</b>	<b>4,499,017</b>

# Notes to the Local Government Pension Fund Accounts

31 March 2017				
	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
<b>Financial assets</b>				
Fair value through profit and loss	1,341,055	2,272,886	526,846	4,140,787
Loans and receivables	108,463	-	-	108,463
<b>Financial liabilities</b>				
Fair value through profit and loss	(125)	(6)	-	(132)
Financial liabilities at amortised cost	(5,747)	-	-	(5,747)
<b>Net financial assets</b>	<b>1,443,645</b>	<b>2,272,880</b>	<b>526,846</b>	<b>4,243,371</b>

## d) Transfers between Levels 1 and 2

There were no transfers of investments between levels 1 and 2.

## e) Reconciliation of fair value measurements within level 3

Value at 31 March 2017		Transfers into Level 3	Transfers out of Level 3	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Unrealised gains/ (losses)	Realise d gains/ (losses)	Value at 31 March 2018
£000s				£000s	£000s		£000s	£000s
131,052	Private Equity	-	-	27,942	(51,527)	(11,156)	19,716	116,026
395,794	Global Alternatives Fund - LGT	-	-	30,000	0	(18)	0	425,776
<b>526,846</b>		<b>-</b>	<b>-</b>	<b>57,942</b>	<b>(51,527)</b>	<b>(11,174)</b>	<b>19,716</b>	<b>541,802</b>

## f) Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation method described above is likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

Asset Class	Value as at 31 March 2018	Assessed valuation range (+/-)	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
Private Equity	116,026	15%	133,430	98,622
Global Alternatives Fund (LGT)	425,776	15%	489,643	361,910
	<b>541,802</b>		<b>623,073</b>	<b>460,532</b>

# Notes to the Local Government Pension Fund Accounts

## Note 15: Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### a) Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the pension fund. These regulations require the Pension Fund to formulate a policy for the investment of its Fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared an Investment Strategy Statement which sets out the Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. This statement is included in the main Pension Fund Annual Report 2017/18, which is available from the Pension Fund's website: <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee and Board quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by the County Council.

### b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition, the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Investment Managers' annual internal control reports. This is to ensure that Investment Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreements for the Pension Fund's bond managers prescribes the investment restrictions on the securities they can invest in, including the minimum acceptance criteria for investments.

Credit risk also arises through the Pension Fund's deposits with banks and financial instruments. For cash managed by the Administering Authority, the Pension Fund's Treasury Management Strategy for 2017/18 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

The credit ratings and amounts held in money market funds, call accounts and cash/current accounts at 31 March 2017 and 2018 are shown in the table overleaf.

# Notes to the Local Government Pension Fund Accounts

2016/17			2017/18		
£000s	Credit rating		£000s	Credit rating	
<b>Cash managed by Administering Authority</b>					
(248) <sup>1</sup>	A-	Bank current account	(501) <sup>1</sup>	A-	
1,931	A-	Call accounts	1,497	A	
6,556	AAA	Money market funds	13,589	AAA	
<b>Cash managed by Custodian and Investment Managers</b>					
7,841	A+ to AA-	Bank current account	13,783	A to AA-	
67,082	AAA	Money Market Funds	97,998	AAA	
<b>83,162</b>		<b>Total cash and cash equivalents</b>	<b>126,366</b>		

<sup>1</sup> Cash balances include cash balances less cash in transit in the form of unpresented cheques and payments committed by BACs at the Net Asset date.

## c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March 2018, £14,585,053 (100%) of the cash and cash equivalents held by the Administering Authority was held in money market funds, call accounts and bank current accounts.

The Pension Fund has set a cap of £42 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers over their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assets as assets which can be converted into sterling cash within three months. At 31 March 2018 the value of illiquid assets was £477,221,021 (10.7% of total fund assets).

## d) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £203,241,431.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended). Details of these can be found in the Pension Fund's Statement of Investment Principles included in the main Pension Fund Annual Report 2017/18.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of

## Notes to the Local Government Pension Fund Accounts

investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

### e) 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 these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

The one year expected volatility in market prices are shown in the following table, along with the changes in the value of the Pension Fund's investment assets and liabilities if the market price of investments increase or decrease in line with these movements. The total fund volatility takes into account the expected interactions between the different asset classes, based on the underlying volatilities and correlations of the assets in line with mean variance portfolio theory.

Asset Class	Value as at 31 March 2018 £000s	Change %	Value on Increase £000s	Value on Decrease £000s
UK Equities, Unit Trusts and Pooled Funds	583,705	16.80	681,767	485,642
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,431,376	17.90	1,687,592	1,175,159
Property	295,919	14.30	338,236	253,603
Corporate Bonds (medium term)	606,178	10.20	668,008	544,348
Index-Linked gilts (medium term)	926,546	7.20	993,258	859,835
Private Equity	181,302	28.30	232,610	129,993
Commodities	-	-	-	-
High yield debt/convertible bonds/insurance linked securities	112,428	6.70	119,961	104,895
Private Debt	1,835	7.00	1,964	1,707
Emerging Market Debt	34,996	12.20	39,265	30,726
Infrastructure equity	10,724	20.10	12,879	8,568
Absolute Return Bonds	-	-	-	-
Absolute return/Diversified Growth	167,429	12.60	188,525	146,333
Cash, other investment balances and forward foreign exchange contracts	118,744	0.50	119,337	118,150
<b>Total Fund</b>	<b>4,471,181</b>		<b>5,083,402</b>	<b>3,858,960</b>

## Notes to the Local Government Pension Fund Accounts

Asset Class	Value as at 31 March 2017	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
UK Equities, Unit Trusts and Pooled Funds	901,747	15.8	1,044,223	759,271
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,376,555	18.4	1,629,841	1,123,269
Property	281,922	14.2	321,955	241,889
Corporate Bonds (medium term)	409,726	10.1	451,109	368,344
Index-Linked gilts (medium term)	485,345	7.1	519,805	450,886
Private Equity	186,750	28.5	239,974	133,526
Commodities	-	-	-	-
High yield debt/convertible bonds/insurance linked securities	98,131	7.0	105,000	91,262
Emerging Market Debt	32,591	12.4	36,632	28,549
Infrastructure equity	9,973	20.4	12,007	7,938
Absolute Return Bonds	180,480	2.9	185,714	175,246
Absolute return/Diversified Growth	160,726	12.5	180,816	140,635
Cash, other investment balances and forward foreign exchange contracts	84,205	0.0	84,205	84,205
<b>Total Fund</b>	<b>4,208,151</b>		<b>4,811,281</b>	<b>3,605,020</b>

### f) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates has been advised by the Pension Fund Actuary, as a sensible level to indicate interest rate sensitivity.

The analysis in the following table assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits, of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

Value at 31 March 2017	Potential change +/- 100 BPS	Value on Increase	Value on Decrease	Asset class exposed to interest rate risk	Value at 31 March 2018	Potential change +/- 100 BPS	Value on Increase	Value on Decrease
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
74,923	-	74,923	74,923	Cash at Custodian and Investment Managers	111,781	-	111,781	111,781
8,239	-	8,239	8,239	Cash held by Administering Authority	14,585	-	14,585	14,585
1,151,861	161,912	989,949	1,313,773	Bond (pooled funds)	1,618,033	287,458	1,330,575	1,905,490
<b>1,235,022</b>	<b>161,912</b>	<b>1,073,111</b>	<b>1,396,935</b>	<b>Total</b>	<b>1,744,399</b>	<b>287,057</b>	<b>1,456,941</b>	<b>2,031,856</b>

## Notes to the Local Government Pension Fund Accounts

Value at 31 March 2017	Potential change +/- 100 BPS	Value on Increase	Value on Decrease	Income source exposed to interest rate risk	Value at 31 March 2018	Potential change +/- 100 BPS	Value on Increase	Value on Decrease
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
107	1	108	106	Cash at Custodian and Investment Managers	808	8	816	800
51	1	52	50	Cash held by Administering Authority	53	5	58	48
<b>157</b>	<b>2</b>	<b>160</b>	<b>156</b>	<b>Total</b>	<b>861</b>	<b>13</b>	<b>874</b>	<b>848</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

The Pension Fund's bond holdings are held in accumulation funds where income is retained and automatically reinvested rather than being distributed to the Pension Fund. Income earned from these funds is therefore excluded from the analysis above.

### g) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2018, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £2,231,488,786 and £12,259,817 cash denominated in currencies other than sterling.

The Pension Fund Actuary has advised that the one year expected standard deviation for an individual currency at the 31 March 2018 is 10% (10% at 31 March 2017). This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Pension Fund is given in the following table together with the prior year comparator.

Asset Class	Value as at 31 March 2018	Potential market movement +/-10%	Value on Increase	Value on Decrease
	£000s	£000s	£000s	£000s
Overseas Equity	387,666	38,767	426,433	348,900
Overseas property	142,738	14,274	157,012	128,464
Overseas unit trusts	917,058	91,706	1,008,764	825,353
Overseas managed funds	784,026	78,403	862,429	705,623
Foreign currencies	12,260	1,226	13,486	11,034
<b>Total</b>	<b>2,243,749</b>	<b>224,375</b>	<b>2,468,123</b>	<b>2,019,374</b>

Asset Class	Value as at 31 March 2017	Potential market movement +/-10%	Value on Increase	Value of Decrease
	£000s	£000s	£000s	£000s
Overseas Equity	418,921	41,892	460,813	377,029
Overseas property	141,689	14,169	155,858	127,520
Overseas unit trusts	922,210	92,221	1,014,431	829,989
Overseas managed funds	711,739	71,174	782,913	640,565
Foreign currencies	7,359	736	8,095	6,623

## Notes to the Local Government Pension Fund Accounts

Total

2,201,918

220,192

2,422,110

1,981,726

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. See Note 9 for further information.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

### Note 16: Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2018 and 31 March 2017 are set out in the following table. This is the underlying commitment of the Pension Fund in the long term to pay retirement benefits to its active (employee members), deferred and pensioner members.

31 March 2017		31 March 2018
£m		£m
5,473	Present value of promised retirement benefits	5,576

Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2016 and therefore do not take account of any changes in membership since the valuation date. The liability at 31 March 2018 is estimated to comprise of £2,358 million with respect to employee members, £1,300 million with respect to deferred members and £1,918 million with respect to pensioners. The principal assumptions used by the Pension Fund Actuary were:

31 March 2017		31 March 2018
	<b>Financial assumptions</b>	
2.4% per annum	Inflation/pension increase rate	2.4% per annum
2.5% per annum	Salary increase rate	2.5% per annum
2.6% per annum	Discount rate	2.7% per annum
	<b>Mortality assumptions</b>	
	Longevity at 65 for current pensioners:	
22.5	• Men	22.5
24.9	• Women	24.9
	Longevity at 65 for future pensioners:	
24.1	• Men	24.1
26.7	• Women	26.7

Allowance has been made for future pensioners to elect to exchange 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

The actuarial present value of promised retirement benefits is sensitive to changes in actuarial assumptions. The significant changes and their impact on the value of the Pension Fund's liabilities between 31 March 2017 and 31 March 2018 were:

Change in assumptions for the year ended 31 March 2018	£m	%
0.5% decrease in discount rate	445	8
0.5% increase in salary increase rate	67	1
0.5% increase in pensions increase rate	541	10
<b>Total increase in liabilities due to changes in assumptions</b>	<b>1,053</b>	<b>19</b>

## Notes to the Local Government Pension Fund Accounts

The assumptions used by the Pension Fund Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice on Local Authority Accounting 2017/18. The liability set out in the table above is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in Note 17.

### Note 17: Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years. The last actuarial valuation of the Pension Fund was carried out as at 31 March 2016 to determine contribution rates for the financial years 2017/18 to 2019/20, with the new rates effective from 1 April 2017. A copy of the 2016 Valuation Report is accessible from the Pension Fund website: [www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx](http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx).

The market value of the Pension Fund's assets at the valuation date was £3,584 million and represented 91% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities.

The main actuarial assumptions were as follows:

<b>Discount rate</b>	<b>4.0%</b>
<b>Salary increases</b>	<b>2.2%</b>
<b>Price inflation/pension increases</b>	<b>2.1%</b>

Further information can be found in the Funding Strategy Statement and the 2016 Valuation Report available on the Pension Fund's website: <http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>.

### Note 18: Additional Voluntary Contributions (AVCs)

Scheme members have the option to make AVCs to enhance their pension benefits. These contributions are invested separately from the Pension Fund's assets, with either the Standard Life Assurance Company or the Equitable Life Assurance Society.

2016/17						2017/18					
Standard Life		Equitable Life		Total AVCs		Standard Life		Equitable Life		Total AVCs	
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
4,961		1,366		6,327		4,811		1,337		6,147	
<b>Value at 1 April</b>						<b>Value at 1 April</b>					
<u>Income</u>						<u>Income</u>					
295		6		301		315		5		321	
-		-		-		6		-		6	
295		6		301		322		5		327	
<b>Total Income</b>						<b>Total Income</b>					
<u>Expenditure</u>						<u>Expenditure</u>					
(1,000)		(101)		(1,101)		(745)		(85)		(830)	
(82)		(52)		(134)		(2)		(20)		(22)	
-		-		-		(4)		-		(4)	
(1,082)		(153)		(1,235)		(750)		(106)		(856)	
636		118		754		111		28		139	
4,811		1,337		6,147		4,493		1,264		5,757	
<b>Value at 31 March</b>						<b>Value at 31 March</b>					

# Notes to the Local Government Pension Fund Accounts

## Note 19: Related Parties

### a) Hertfordshire County Council

The County Council incurred costs of £439,524 in relation to the management of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. The County Council also contributed £51,514,441 to the Pension Fund in 2017/18.

### b) Pensions Committee

No members of the County Council Pensions Committee were councillor members of the Hertfordshire Local Government Pension Scheme during 2017/18. Each member of the Pensions Committee is required to declare their interests at each meeting.

### c) Key Management Personnel

The Administering Authority disclosure of senior officer remuneration includes the S151 Officer who has responsibility for the proper financial administration of the Pension Fund under the Local Government Act 1972.

This Officer was employed by the Administering Authority and spent a proportion of time on the financial management of the Pension Fund. These costs comprise an element of the remuneration from the Pension Fund to the County Council in 2017/18 of £439,524.

The remuneration paid by Hertfordshire County Council to key management personnel of the Pension Fund, apportioned for the proportion of time on the financial management of the Pension Fund, were:

Position	Year	Apportioned salary £	Apportioned pension contributions £	Total apportioned remuneration £
Director of Resources	2017/18	9,684	1,765	<b>11,449</b>
	2016/17	12,741	2,323	<b>15,064</b>

## Note 20: Contingent Liabilities and Contractual Commitments

The Pension Fund had no contingent liabilities.

At 31 March 2018, the Pension Fund had a contractual commitment of a further £271.0 million (£136.9 million at 31 March 2017) to private equity limited partnerships and private equity funds within the Global Alternatives Fund, based on exchange rates applicable at the balance sheet date.

# Notes to the Local Government Pension Fund Accounts

## Note 21: Contingent Assets

### a) Withholding tax reclaims

The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in France and Germany.

The Pension Fund's claims are set out in the following table in both euros and sterling (calculated using exchange rates as at 31 March 2018). The claims are subject to legal processes but based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

Country	Euro Value at 31 March 2018	Sterling Value at 31 March 2018
	€ 000s	£ 000s
Germany	148	130
France	191	167
<b>Total</b>	<b>339</b>	<b>297</b>

### b) Bonds

28 admitted bodies in the Pension Fund held bonds as surety to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## Note 22: Investment Strategy Statement

Regulation 7 of the Local Government Pension Fund Regulations 2016 (Management and Investment of Funds) set out a requirement for funds to formulate and publish a new Investment Strategy Statement (ISS) no later than 1<sup>st</sup> April 2017. The Hertfordshire Pension Fund published its ISS on 31<sup>st</sup> March 2017, and it can be found on the Fund's website: <http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>

## **Firefighters' Pension Fund Accounts**

# Firefighter's Pension Fund

## Fund account for year ended 31 March 2018

2016/17 £000		Note	2017/18 £000
	<u>Contributions receivable</u>		
	From employer:		
(2,673)	- contributions in relation to pensionable pay		(2,733)
(61)	- ill health early retirements		(41)
	From members:		
(2,077)	- Firefighters' contributions		(2,168)
<b>(4,811)</b>	<b>Total - Contributions receivable</b>	<b>3</b>	<b>(4,942)</b>
	<u>Transfers in</u>		
(3)	- from other authorities	4	(49)
<b>(3)</b>	<b>Total - Transfers in</b>		<b>(49)</b>
	<u>Benefits payable</u>		
9,971	- pensions		10,304
1,950	- commutations and lump sum retirement benefits		2,610
-	- lump sum death benefits		-
333	- other (GAD vs Milne)		-
<b>12,254</b>	<b>Total - Benefits payable</b>		<b>12,914</b>
	<u>Payments to and on account of leavers</u>		
-	- refunds of contributions		-
1	- transfers out to other authorities	4	-
<b>1</b>	<b>Total - Payments to and on account of leavers</b>		<b>-</b>
7,441	Deficit for the year before top-up grant receivable from central Government		7,923
(7,441)	Top-up grant payable by central Government	5	(7,923)

## Net assets statement as at 31 March 2018

2016/17 £000		2017/18 £000
	<b>Current assets</b>	
1,803	Top-up grant receivable from central Government	1,536
<b>1,803</b>		<b>1,536</b>
	<b>Current liabilities</b>	
(1,803)	Amount owing to the General Fund	(1,536)
<b>(1,803)</b>		<b>(1,536)</b>
<b>-</b>	<b>Net Assets</b>	<b>-</b>

Owen Mapley  
Director of Resources  
Date: May 2018

# Firefighter's Pension Fund

## Summary of the Firefighters' Pension Fund Operations

The Firefighters' Pension Fund was established under the Firefighters' Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the Council was responsible for paying the pensions of its former firefighting employees on a 'pay-as-you-go' basis. This meant that employees' contributions were paid into the Council's accounts from which pensions awards were made and the Council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2011, the Council has continued, through its scheme administrator, London Pensions Partnership (LPP) (previously London Pensions Fund Authority (LPFA)), to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes.

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters' Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. On 1st April 2015, a new 2015 Firefighters' Pension Scheme came into effect. The two previous Schemes (Firefighters' Pension Scheme 1992 and Firefighters' Pension Scheme 2006) continue in force for firefighters who were serving before that date and who are eligible to remain members of their earlier Scheme.

In 2015, the Modified Retained Pension Scheme was also introduced which gave retained firefighters employed between 1 July 2000 and 5 April 2006 inclusive the opportunity to pay historic contributions and buy back their service for this period. The Modified Retained scheme does not constitute a scheme on its own but rather a modified section of the 2006 scheme with different benefits.

The new financial arrangements are for the 1992, 2006 and 2015 Firefighters' Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters' Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

## Accounting Policies

The accounts have been prepared in accordance with the 2012 Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters' Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2018.

# Firefighter's Pension Fund

## Contributions Receivable

### Employer and Employee Contributions

Employees' and employer's contribution levels are set nationally by central government and are subject to triennial revaluation by the central Government Actuary's Department.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means the Council must meet the full cost of employing firefighters, including the cost of future pension liabilities, at the time of employing them.

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme, the 2006 Firefighters' Pension Scheme and the 2015 Firefighters' Pension Scheme, as shown below.

	Employer %	Employee %
<b>1992 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £15,454	21.7	11.0
More than £15,454 and up to and including £21,636	21.7	12.2
More than £21,636 and up to and including £30,909	21.7	14.2
More than £30,909 and up to and including £41,212	21.7	14.7
More than £41,212 and up to and including £51,515	21.7	15.2
More than £51,515 and up to and including £61,818	21.7	15.5
More than £61,818 and up to and including £103,030	21.7	16.0
More than £103,030 and up to and including £123,636	21.7	16.5
More than £123,636	21.7	17.0
<b>2006 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £15,454	11.9	8.5
More than £15,454 and up to and including £21,636	11.9	9.4
More than £21,636 and up to and including £30,909	11.9	10.4
More than £30,909 and up to and including £41,212	11.9	10.9
More than £41,212 and up to and including £51,515	11.9	11.2
More than £51,515 and up to and including £61,818	11.9	11.3
More than £61,818 and up to and including £103,030	11.9	11.7
More than £103,030 and up to and including £123,636	11.9	12.1
More than £123,636	11.9	12.5
<b>2015 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £27,543	14.3	10.5
More than £27,544 and up to and including £51,005	14.3	12.7
More than £51,006 and up to and including £142,500	14.3	13.5
More than £142,501	14.3	14.5

# Firefighter's Pension Fund

Contributions received by the Fund are analysed below.

	Employer		Employee	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
<b>1992 Firefighters' Pension Scheme</b>	1,200	1,115	816	735
<b>2006 Firefighters' Pension Scheme</b>	27	33	23	28
<b>2015 Firefighters' Pension Scheme</b>	1,446	1,585	1,236	1,396
<b>Modified Retained – Service Buy Back</b>	-	-	1	9
	<b>2,673</b>	<b>2,733</b>	<b>2,076</b>	<b>2,168</b>

## III-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the Council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the Council will be required to make a payment into the pension fund.

Contributions received by the Fund are analysed below.

	Employer	
	2016/17 £000	2017/18 £000
<b>1992 Firefighters' Pension Scheme</b>	61	41
	<b>61</b>	<b>41</b>

Ill health charges in 2017-18 consist of £41k in higher tier. Charges in 2016-17 consist of £41k in higher tier and £20k in lower tier retirements.

## Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

## Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters' Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Home Office from 1st April 2016 (previously Department for Communities and Local Government). Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

## Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2018, which are disclosed separately in Note 37 of the main HCC accounts.

# Glossary

# Glossary

This glossary is intended to provide the reader with a clear and concise explanation of the technical terms used in this report.

## Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

## Accrual Accounting

The inclusion of income and expenditure within the accounts for the financial year in which they are earned or incurred, not when the money is received or paid.

## Actuarial Gains and Losses

For defined benefit pension schemes, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

## Agency Services

Services that are performed by or for another Authority or Public Body, where the principal, the authority responsible for the service, reimburses the agent, the authority carrying out the work, for the cost of the work carried out.

## Amortised Cost Using the Effective Interest Rate Method

The amortised cost using the effective interest rate method applies to both financial assets and liabilities carried at amortised cost. It is a method of determining, from the expected cash flows, the balance sheet carrying amount of such assets and liabilities and the periodic charges or credits to the Income and Expenditure Account of a financial instrument.

## Asset

An item that has value owned by the Council. Examples would be land, buildings and stocks.

## Balance Sheet

This provides a summary of all the assets and liabilities of the Council, bringing together all the accounts of the Council except the Pension Fund and various Trust Funds whose assets are not at the disposal of the Council.

## Billing Authority

The local authority responsible for collecting the Council Tax from residential properties in their area. In Hertfordshire this is the responsibility of the Borough and District Councils.

## Budget

A statement of the Council's policy expressed in financial terms. This includes both revenue and capital expenditure.

## Capital Adjustment Account

The opening balance on this account represents the combined total of the Fixed Asset Restatement Account and the Capital Financing Account which were replaced at 1 April 2007. From 2007/08 the movements on the Capital Adjustment Account reflects financing of capital expenditure from revenue and capital resources, together with the reversal of amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.

## Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

## Capital Financing Requirement

The amount of money the Council would need to borrow to finance its capital expenditure. The Minimum Revenue Provision in relation to this debt is calculated with reference to estimated life of the asset for which borrowing is undertaken at the end of the preceding financial year.

# Glossary

## Capital Receipts

The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay outstanding debt on fixed assets or finance capital expenditure within rules set down by government. Capital receipts however cannot be used to finance revenue expenditure.

## Capital Receipts Reserve

Contains the proceeds from the sale of fixed assets that are available to either finance capital expenditure or repay debt.

## Carry Forwards

These are underspends at the year-end which Members and officers, under delegated powers, have agreed to carry forward to the next year to support that year's expenditure plans.

## CIPFA

Chartered Institute of Public Finance and Accountancy. The principal accounting body dealing with local government finance.

## Code of Practice on Local Authority Accounting

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

## Collection Fund

A fund administered by each billing authority. Council Tax monies are paid into the fund whilst part of the net revenue expenditure of the Council is met from the Collection Fund.

## Component Accounting

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

## Comprehensive Income & Expenditure Account

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. Authorities raise 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.

## Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## Constructive Obligation

An obligation that derives from a Council's actions, where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## Contingent Liability

A potential liability at the balance sheet date, the outcome of which is uncertain, as it is dependent on a future event.

## Corporate and Democratic Core

Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those that would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

# Glossary

## **Council Tax**

A property based tax that is administered by District, Borough and Unitary Councils.

## **Creditors**

Amounts owed by the Council at the balance sheet date for goods and services supplied. This will include receipts in advance that have not been applied at the balance sheet date.

## **Current Asset**

An asset that is realisable or disposable within one year.

## **Current Liability**

Amounts that are due to be settled within one year.

## **Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liability expected to arise from employee service in the current period.

## **Curtailment**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's services earlier than expected; and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

## **Debtors**

Amounts due to the Council at the balance sheet date.

## **Deferred Credits**

Capital income potentially due to be received in future periods.

## **Defined Benefit Scheme**

A pension or other retirement benefit 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 un-funded (including notionally funded).

## **Defined Contribution 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**

The method employed in valuing land and buildings where a market value basis is not readily available.

## **Depreciation**

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

## **Discretionary Benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as The Local Government (Discretionary Payments) Regulations 2006.

## **Doubtful Debts**

A provision made by the Council based on age and particular circumstances relating to amounts owed to the Council.

# Glossary

## **Earmarked Reserves**

Sums set aside to meet revenue or capital expenditure needs in the future. Reserves offer the scope for greater flexibility in financing future expenditure.

## **Emoluments**

Amounts paid to employees, including expenses or non-monetary benefits that are taxable.

## **Estimation Techniques**

The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

## **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Council, and which need to be disclosed separately by virtue of their size or incidence in order to give fair presentation of the accounts.

## **Exit Packages**

All relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

## **Extraordinary Items**

Material abnormal items which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

## **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## **Fees and Charges**

Income raised by charging users of services for the facilities. For example, the supply of school meals and home help.

## **Financial Asset**

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

## **Financial Instrument**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

## **Finance Lease**

Arrangements whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

## **Financial Liability**

A financial liability is an obligation to transfer economic benefits controlled by the Council, either by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

## **Formula Grant**

Central Government provides funding to local authorities through a general grant known as Formula Grant, made up of Revenue Support Grant and Re-distributed Business Rates, in support of its general revenue expenditure.

## **Foundation School**

A school that receives funding from the Council but owns its land and buildings.

## **General Fund Balance**

The excess to date of income over expenditure in the Income and Expenditure Account.

# Glossary

## **Going Concern**

The concept that the Council will remain in operational existence for the foreseeable future. Income and expenditure accounts and the balance sheet are produced on the basis that there is no intention to curtail significantly the scale of operations.

## **Government Grants**

Assistance by government and inter-government agencies and similar bodies. When applied, revenue grants are credited to the appropriate service revenue account.

## **Heritage Assets**

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities, that is held and maintained principally for its contribution to knowledge and culture.

## **Historical Cost**

The value of capital expenditure originally incurred.

## **International Financial Reporting Standards**

The Code of Practice is the first to be based on International Financial Reporting Standards and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

## **Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

## **Infrastructure Assets**

Assets such as highways, footpaths and railways, whose value is through continued use i.e. there is no prospect of sale or alternative use.

## **Intangible Assets**

Non-monetary assets that do not have physical substance and which provide future economic benefits or service potential.

## **Investments (Non-Pensions Fund)**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments, other than those in relation to the Pension Fund, that do not meet this criterion are classified as current assets.

## **Investments (Pensions Fund)**

The investments of the Pension Fund will be accounted for in the statements of that Fund. FRS17 Retirement Benefits requires authorities to disclose their attributed share of pension scheme assets.

## **LASAAC**

Local Authority (Scotland) Accounts Advisory Committee

## **Liquid Resources**

Current asset investments that are readily disposable by the Council without disrupting its business and are readily convertible to known amounts of cash.

## **Long Term Borrowing**

Loans repayable more than one year after the balance sheet date.

## **Long Term Contracts**

A contract entered into for the provision of a service where the time taken to complete the contract is such that the contract falls into different accounting periods.

## **Long Term Debtors**

Amounts due to the Council more than one year after the balance sheet date.

## **Minimum Revenue Provision**

An amount that the Council is required to charge to the general fund, to provide for the repayment of debt related to capital expenditure.

# Glossary

## **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 other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

## **National Non-Domestic Rates**

A rate in the pound, set by Central Government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes.

## **Net Book Value**

The amount at which fixed assets are included in the balance sheet. This would be either the asset's historic cost or current value less the cumulative amount provided for depreciation.

## **Net Current Replacement Cost**

The cost of replacing an asset in its existing condition and its existing use.

## **Net Debt**

For cash flow statement presentation purposes, net debt comprises the Council's borrowings plus bank overdrawn positions less positive bank and cash balances, short and long term investments.

## **Non Distributed Costs**

Costs that cannot be directly attributed to services.

## **Net Interest on the Net Defined Liability**

The change during the period in the net defined benefit liability (asset) that arises from the passage of time. The net interest on the net defined liability (asset) comprises the interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling

## **Operating Lease**

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the lessor.

## **Overhanging Discounts and Premiums**

Discounts or premiums occurring as a result of debt restructuring that cannot be linked with the replacement loan.

## **Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## **Pension Fund**

An employees' pension fund maintained by a Council, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

## **Post Balance Sheet Events**

Events both favourable and unfavourable that occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

## **Precept**

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council Tax and Business Rates payers on their behalf.

## **Precepting Authorities**

Those authorities which are not billing authorities (i.e. do not collect Council Tax and Business Rates). County Councils, Police Authorities and Joint Authorities are 'major precepting authorities' and Parish, Community and Town Councils are 'local precepting authorities'.

## **Prior Period Adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

# Glossary

## Private Finance Initiative

The private finance initiative provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. In return the private sector receives payment linked to performance in meeting agreed standards of provision.

## Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

## Provisions

Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

## Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate realisation of which can be assessed with reasonable certainty.

## Public Works Loan Board

A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

## Rateable Value

Rateable value of a property is based on an assessment of the annual rental value for non-domestic property. Rateable value multiplied by the rate in the £ levied equals the rate payments for the year.

## Related Parties

For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

## Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## Resources and Performance

A directorate of the Council which contains the services organised on a corporate basis that support the delivery of services to the public.

## 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 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, because these are not given in exchange for services rendered by employees.

## Return on plan assets, excluding amounts included in net interest on the net defined liability

This is defined as interest, dividends and other income derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less:

- any costs of managing plan assets, and

# Glossary

- any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

## **Revaluation Reserve**

Gains and losses on an individual asset basis arising from revaluations are reflected within the Revaluation Reserve.

## **Revenue Contingency**

A sum set-aside for future pay and price increases.

## **Revenue Contributions to Capital Outlay**

Contributions from revenue to finance capital expenditure.

## **Revenue Expenditure and Income**

This is expenditure on day-to-day running costs and consists primarily of salaries and wages, premises related costs and supplies and services. Revenue income will include fees and charges and service specific grants.

## **Revenue Expenditure Funded from Capital under Statute**

Expenditure which does not result in, or remain matched with, assets controlled by the Council.

## **Revenue Support Grant**

A grant paid by central government in aid of local authority services in general, as opposed to specific grants, which may only be used for a specified purpose.

## **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

## **Settlement**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## **Service Reporting Code of Practice**

The Code that establishes 'proper practices' with regard to consistent financial reporting for services.

## **Short Term Borrowing**

Loans repayable within one year of the balance sheet date.

## **Short Term Investments**

Deposits with approved financial institutions which, when placed, had a maturity date of less than one year.

## **Soft Loans**

Loans made for policy reasons that are interest free or at rates below prevailing market rates.

## **Specific Grants**

Government grants to local authorities in aid of particular projects or services.

## **Statement of Standard Accounting Practice**

A statement of accounting practice issued by the Accounting Standards Board.

## **Total Cost**

The total cost of providing a service, including an appropriate share of all support services and overheads.

## Glossary

### **Transfer Value**

The value of an employee's pension rights when transferring from one pension scheme to another.

### **Useful Life**

The period over which the Council will derive benefits from the use of a fixed asset.

### **Vested Rights**

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses, civil partners or other dependants.