

Statement of Accounts 2007/08



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Foreword

1. Introduction

The purpose of these accounts is to present fairly the financial results of the Council's activities for the year ended 31 March 2008, and to summarise the overall financial position of the Council as at 31 March 2008.

The following paragraphs provide an introduction to the Statement of Accounts and an overview of the Council's financial performance and position. The supporting details are set out within the Accounting Statements (pages 18 to 21) and the notes to the Accounts (pages 22 to 74).

2. Accounting Statements

The Council's accounting statements for 2007/08 comprise:

- **Income and Expenditure Account**
The Income and Expenditure Account provides a summary of the resources generated and consumed by the Council in the year.
- **Statement of Movement on the General Fund Balance**
The Statement of Movement in the General Fund Balance provides a reconciliation showing how the balance of resources generated / consumed in the year links with statutory requirements for raising Council Tax.
- **Statement of Total Recognised Gains and Losses**
The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus or deficit generated on the Income and Expenditure Account, it includes the gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.
- **Balance Sheet**
This sets out the financial position of the Council on 31 March 2008. It shows the balances and reserves at the Council's disposal, long term indebtedness and fixed and net current assets employed. It excludes the Pension Fund and Trust Funds.
- **Cash Flow Statement**
This statement summarises the inflows and outflows of cash with third parties.

Supplementary information is set out within the notes to the accounts (see pages 22 to 74) to aid interpretation of these financial statements, and to provide further information on the financial performance of the Council during 2007/08.

Foreword

3. Pension Fund

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

- **Fund Account**

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

- **Net Assets Statement**

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

Further information is provided in the notes to the Pension Fund accounts (see pages 92 to 105).

4. Revenue Expenditure

4.1 Background to the Budget

The Council published its Corporate Plan in February 2006 which set out its aspirations for service delivery over the period 2006 – 2009. A key theme of the Plan was to deliver real service improvement to the people of Essex, whilst keeping council tax as low as possible and providing real value for money.

Work was undertaken during 2006/07 to identify more efficient ways of delivering our services in a way that would realise cash savings but not affect the overall quality. In order to build upon the work undertaken in 2006/07, most services were asked to develop a series of budget scenarios for 2007/08 that assumed a general increase of 3% to cover inflation and 6%, 10% and 12% reductions. These plans were then refined to reflect expenditure pressures and the key priorities set out within our Corporate Plan under the four strategic objectives of:

- Ensuring service improvement.
- Strengthening community leadership.
- Enhancing Essex's reputation.
- Guaranteeing value of money.

Net expenditure was originally estimated to amount to **£730.407m**, which was to be financed fully from general government grants and local taxpayers. The Council Tax for band D therefore amounted to **£1,003.95**, representing an increase of **4.5%** over 2006/07.

Foreword

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

4.2 Outturn position

Approved total net expenditure was increased to **£741.684m** during the year. The increase of **£11.277m**, which primarily related to unspent budget brought forward from 2006/07, was funded from the General Fund Balance.

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

	Approved budget	Actual net expenditure	Variance overspent / (underspent)
	£000	£000	£000
Net revenue expenditure			
Schools, Children and Families	213,642	201,296	(12,346)
Adults, Health and Community Wellbeing	337,724	324,229	(13,495)
Highways and Transportation	88,983	88,176	(807)
Environment and Waste	59,046	57,860	(1,186)
Leader	16,700	15,540	(1,160)
Localism and Planning	9,121	8,313	(808)
Heritage, Culture and the Arts	10,115	9,526	(589)
Economic Development, Regeneration & 2012 Games	6,893	6,469	(424)
Deputy Leader	461	327	(134)
Finance and Change Management	17,103	15,487	(1,616)
Operating costs	(18,104)	(5,584)	12,520
Total net expenditure	741,684	721,639	(20,045)
Financed by			
General government grant	(31,620)	(31,580)	40
National non-domestic rates	(176,496)	(176,496)	-
Council taxpayers	(522,291)	(522,291)	-
Total financing	(730,407)	(730,367)	40
Deficit / (surplus) for the year	11,277	(8,728)	(20,005)

This analysis combines the information presented in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance (see page 18).

Foreword

The presentation of services' expenditure differs from that provided in the Income and Expenditure Account, which is shown according to the mandatory service headings specified by the CIPFA Best Value Accounting Code of Practice 2007 (see note 3 to the accounts on page 24 for further details).

4.3 General Fund Balance

Actual net expenditure for 2007/08 amounted to **£721.639m**, giving rise to a surplus for the year of **£8.728m**. The surplus has been added to the Council's General Fund Balance, increasing the balance to **£38.927m** as at 31 March 2008.

It is planned to withdraw **£20.005m** from the General Fund Balance in 2008/09 to fund commitments carried forward from 2007/08 and various new initiatives. This withdrawal will reduce the General Fund Balance to **£18.922m** as at 1 April 2008.

4.4 Revenue Reserves

The Council maintains a number of earmarked reserves, which represent amounts set aside for specific policy purposes.

Balances held by schools, which represent unspent monies delegated to school governing bodies to manage, totalled **£52.902m** at 31 March 2008. Other earmarked reserves totalled **£143.639m** at 31 March 2008.

The purpose and usage of the Council's earmarked reserves is set out within note 17 to the Accounts (see page 38).

5. Capital Expenditure

5.1 Background to the Budgets

The 2007/08 capital programme began by determining an affordability envelope which took account of the revenue budget provision for borrowing costs, capital receipts estimates and the capacity to withdraw funds from reserves. Funds were then allocated to schemes on an assessment of deliverability and priorities.

Capital expenditure was originally estimated to amount to **£164.748m** in 2007/08, and was to be financed from a number of sources, including borrowing (**£55.502m**), grants and contributions (**£71.762m**), capital receipts (**£21.187m**) and earmarked reserves (**£16.297m**).

5.2 Outturn position

Approval to capital payments was increased during the year to **£182.886m**. In comparison, actual expenditure amounted to **£165.515m**, giving rise to an under spend of **£17.371m**.

Foreword

The end of year position is set out in the following table, which compares actual capital expenditure with the finally approved budget by portfolio, and shows how the expenditure has been financed.

	Approved capital expenditure £000	Actual capital expenditure £000	Variance overspent / (underspent) £000
Capital payments			
Schools, Children and Families	78,057	72,725	(5,332)
Adults, Health and Community Wellbeing	8,202	5,751	(2,451)
Highways and Transportation	74,861	68,834	(6,027)
Environment and Waste	4,384	3,897	(487)
Leader	4,544	4,540	(4)
Localism and Planning	5,886	4,237	(1,649)
Heritage, Culture and the Arts	4,118	3,505	(613)
Deputy Leader	2,803	2,014	(789)
Finance and Change Management	31	12	(19)
Total of capital payments financed	182,886	165,515	(17,371)
Financed by			
Borrowing	(54,717)	(43,974)	(10,743)
Government grants and contributions	(82,556)	(76,335)	(6,221)
Capital receipts	(25,654)	(15,638)	(10,016)
Earmarked reserves applied	(19,959)	(29,568)	9,609
Total financing	(182,886)	(165,515)	(17,371)

The under spend largely results from slippage in capital schemes. **£14.633m** of the under spend will therefore be carried forward to meet the costs of these schemes in 2008/09.

Foreword

5.3 Capital projects undertaken

The most significant of the capital projects undertaken during 2007/08 are as follows:

Major schemes in 2007/08	Capital Payments £000
Education	
Formula Capital Grant to schools	20,082
Capitalised building maintenance	8,966
Basildon Pioneer New Model Special School	5,490
Minor Works - Asset Management Plan, Internal Seed Funding	3,463
Schools access improvement projects	2,155
Ingatestone Anglo European School - new teaching block	1,331
Staples Road Infant & Junior School - new kitchen	1,205
Bromfords School - Basic Need Extension	1,128
Public Private Partnership advisor's fees	1,089
Childrens Centre provision at Hillhouse Primary	1,056
Colchester Philip Morant School - remodelling to provide additional places	1,010
Highways and Transportation	
Pitsea flyover bridge strengthening scheme	5,135
Fryerns and Craylands link road	3,832
A131 Gt Notley	3,353
Brentwood High street area improvements	2,337
Harlow street maintenance initiative	1,698
Surface water alleviation scheme - Rectory road, Sible Hedingham	1,223
Walking and cycling scheme - Katherines to Harlow Mill station	1,154
First Avenue Harlow - passenger transport scheme	1,089
Other	
Investment in Information Systems	3,825
Colchester Visual Arts Centre (Firstsite)	3,397
Grants to ensure safer and stronger communities	1,945
Green Arc Project - strategic initiative with 100% partnership funding	1,664
Older peoples care home improvements - Dept of Health Grant	1,364
Saffron Walden civic amenity recycling centre & highways depot purchase	1,518

Note:

Capitalised maintenance represents expenditure intended to lengthen substantially the useful life of assets or increase substantially their market value or the extent to which the asset can be used by the Council.

5.4 Capital reserves

At 31 March 2008, the Council's usable capital receipts reserve, which represents the proceeds from the sale of assets that have not yet been used to finance new capital spending, amounted to **£13.883m**. A further **£18.517m** has been recognised as deferred capital income. It is anticipated that this will be paid to the Council during 2008/09. Further details are provided on page 66.

Foreword

6. Borrowing

6.1 Long term borrowing

The Council undertakes long term borrowing, for periods of in excess of one year, in order to finance its capital spending. The Council secured **£65m** of new loans during 2007/08; these loans were taken from the Public Works Loan Board (PWLB). In addition, the Council refinanced **£99m** of existing PWLB loans, in order to reduce the annual interest burden on the Income and Expenditure Account; **£42m** of these loans were replaced with money market loans.

6.2 Short term borrowing

The Council undertook short term borrowing during 2007/08 for the following purposes:

- In accordance with its agreement to temporarily borrow the surplus cash balances of the Essex Police and Fire Authorities, and the Essex Probation Board.
- To cover temporary shortfalls of cash arising as a consequence of timing differences between receipts and payments.

7. Investments

The Council invests its surplus cash balances in accordance with guidance issued by the Government. The primary objective is to ensure that the Council's funds are invested prudently, with priority being given to security and risk minimisation, rather than to yield. The Council therefore only invests funds with counterparties that have a strong capacity for the timely repayment of financial commitments.

8. Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual payments will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2007, the Council's liability for meeting the future cost of retirement benefits amounted to **£348.215m**. In comparison, the liability amounts to **£564.039m** at 31 March 2008.

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Policy note 7 of the Statement of Accounting Policies, on page 77, explains the basis on which the Council accounts for retirement benefits, and the change to the pension liability in 2007/08 is analysed in note 13 to the accounts, which commences on page 30.

9. Accounting policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

All of the accounting policies adopted, that are material in the context of the Council's 2007/08 financial statements, are described in the Statement of Accounting Policies, which is set out on pages 75 to 91.

In the 2007/08 Statement of Accounts, the Council has adopted two new accounting policies, in order to meet the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice. The new policies are as follows:

▪ Financial instruments

Financial instruments are recognised when the Council becomes party to the contractual provisions of the instruments and de-recognised when the obligations are discharged, cancelled or as they expire.

Financial instruments are initially measured at fair value less the transaction costs that are attributable to the acquisition or issue of the financial asset or liability. Subsequent measurement depends on the classification of the instrument as detailed by Financial Reporting Standard 26: Financial Instruments – Measurement.

The impact upon the Income and Expenditure Account varies, depending upon the type of financial instrument. As a result of the different measurement bases, the expenditure or income taken to the Income and Expenditure Account is different to the actual expenditure or income payable / receivable. The impact on the General Fund Balance is reversed out within the Statement of Movement on the General Fund Balance and the difference is posted to the Financial Instruments Adjustment Account.

In accordance with the 2007 SORP, the Council's 2006/07 accounts have not been restated in respect of this change in accounting policy. Financial instruments held at 31 March 2007 have been adjusted in accordance with the new accounting policy as at 1 April 2007.

▪ Revaluation and impairment of fixed assets

A Revaluation Reserve and a Capital Adjustment Account were established on 1 April 2007 to replace the Fixed Asset Restatement Account and the Capital

Foreword

Financing Account. These new reserves have been created to account for the changes made to the way in which asset impairments and depreciation on re-valued assets are accounted for.

The **Revaluation Reserve** has been set up with a nil opening balance at 1 April 2007. It will record:

- The net accumulated gains on the revaluation of the Council's fixed assets. Impairments to assets arising from price fluctuations will only be charged against this Reserve if there is a sufficient gain relating to that asset already held within the Reserve. Any excess balance will be charged to the Income and Expenditure Account. This differs from previous practice where losses could be charged in full to the Fixed Asset Restatement Account.
- Amounts equal to the part of the depreciation charges on assets that have been incurred only because the asset has been revalued. Previously, depreciation was financed in the same manner for re-valued and non-re-valued assets.

In addition, net gains recorded for assets which are disposed of will be required to be written out of this reserve.

The opening balance on the **Capital Adjustment Account** represents the net closing balances on the old Fixed Asset Restatement Account and Capital Financing Account at 31 March 2007. The balance on this reserve reflects the timing differences between the amount of the historical (non re-valued) cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

In addition to these changes, the Council has included a new disclosure note in relation to the arrangements for accounting for Local Area Agreement grant (see note 15 of the Notes to the Accounts, which commences on page 34). This note has been included to recognise the Council's responsibility for controlling the distribution of grant to the Local Area Agreement partners.

10. Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 115 to 122.



Margaret Lee
Head of Corporate Finance
30 June 2008

Statement of responsibilities for the Statement of Accounts

1. Council's responsibilities

The Council is required to:

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

2. Chairman of the Approval of the Statement of Accounts Committee's certificate

I confirm that the Approval of the Statement of Accounts Committee approved these accounts at its meeting on **30 June 2008**.



Councillor Tom Smith-Hughes
Deputy Chairman of the Approval of the Statement of Accounts
Committee
30 June 2008

Statement of responsibilities for the Statement of Accounts

3. Head of Corporate Finance's responsibilities

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

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

4. Head of Corporate Finance's certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents fairly the financial position of the Council at 31 March 2008 and its expenditure and income for the year then ended.



Margaret Lee
Head of Corporate Finance
30 June 2008

Auditor's Report

Independent auditor's report to the Members of Essex County Council

1. Opinion on the accounting statements

I have audited the Authority accounting statements, pension fund accounts and related notes of Essex County Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

2. Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements, pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- The financial position of the Authority and its income and expenditure for the year; and
- The financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Auditor's Report

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, pension fund accounts and related notes. My responsibilities do not extend to any other information.

3. Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements, pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements, pension fund accounts and related notes.

Auditor's Report

4. Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

5. Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

6. Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Auditor's Report

7. Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Essex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

8. Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King
(Officer of the Audit Commission)

District Auditor
Audit Commission
Lyttleton House
64 Broomfield Rd
Chelmsford
Essex
CM1 1SW

30 September 2008

Accounting Statements

Introduction

The Accounting Statements comprise:

- **Income and Expenditure Account – page 18**
The Income and Expenditure Account provides a summary of the resources generated and consumed by the Council in the year.
- **Statement of Movement on the General Fund Balance – page 18**
The Statement of Movement in the General Fund Balance provides a reconciliation showing how the balance of resources generated / consumed in the year links with statutory requirements for raising Council Tax.
- **Statement of Total Recognised Gains and Losses – page 19**
The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus or deficit generated on the Income and Expenditure Account, it includes the gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.
- **Balance Sheet – page 20**
This sets out the financial position of the Council on 31 March 2008. It shows the balances and reserves at the Council's disposal, long term indebtedness and fixed and net current assets employed. It excludes the Pension Fund and Trust Funds.
- **Cash Flow Statement – page 21**
This statement summarises the inflows and outflows of cash with third parties.

Accounting Statements

Income and Expenditure Account

For the year ended 31 March 2008

2006/07 Net Expenditure £000	Note		2007/08			
			Gross expenditure £000	Income £000	Specific grants £000	Net expenditure £000
2,254	3	Central services to the public	4,370	(2,167)	-	2,203
1,310		Court services	1,930	(538)	-	1,392
86,033		Cultural, environmental and planning services	118,049	(16,231)	(5,621)	96,197
192,116		Children's and Education services	1,262,544	(132,330)	(931,081)	199,133
82,200		Highways, roads and transportation services	132,221	(29,258)	(15,859)	87,104
202		Housing services	2,133	(662)	-	1,471
305,102		Adult Social Care	473,621	(104,390)	(67,116)	302,115
15,224		Corporate and democratic core	18,923	(352)	-	18,571
8,999		Non distributed costs	15,790	(354)	(95)	15,341
693,440		Net cost of services	2,029,581	(286,282)	(1,019,772)	723,527
2,593	9	Amounts due to precepting authorities	2,479	-	-	2,479
17,109	30	Interest payable and similar charges	19,288	(15,726)	-	3,562
(12,290)	30	Interest and investment income	3,022	(19,396)	-	(16,374)
5,503	10	Loss on disposal of fixed assets	1,957	(320)	-	1,637
(75)	11	Net (surplus) / deficit on trading activities	996	-	-	996
8,665	13	Pension interest and expected return on pension assets	80,597	(75,041)	-	5,556
714,945		Net operating expenditure	2,137,920	(396,765)	(1,019,772)	721,383
		Financed by				
(45,695)	14	General government grant (incl. Revenue Support Grant)				(31,580)
(169,477)		National non domestic rates				(176,496)
(493,956)		Demand on the Collection Fund				(522,291)
(709,128)						(730,367)
5,817		(Surplus) / deficit for the year				(8,984)

Statement of the Movement on the General Fund Balance

For the year ended 31 March 2008

2006/07 £000	Note		2007/08 £000
5,817		(Surplus) / deficit on the Income and Expenditure Account	(8,984)
(2,293)	16	Net additional amount required by statute and non-statutory proper practices to be debited to the General Fund Balance for the year	256
3,524		(Increase) / decrease in the General Fund Balance for the year	(8,728)
(33,723)		General Fund Balance brought forward	(30,199)
(30,199)		General Fund Balance carried forward	(38,927)

Accounting Statements

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2008

2006/07 £000	Note		2007/08 £000
5,817		(Surplus) / deficit for the year on the Income and Expenditure Account	(8,984)
(270,499)	37	Surplus arising on revaluation of fixed assets	(184,356)
(84,608)	13	Actuarial (gains) / losses on Pension Fund assets and liabilities	209,858
<u>(349,290)</u>		Total recognised (gains) and losses for the year	<u>16,518</u>
-		Cumulative effect on reserves of prior period adjustments made in 2007/08 in respect of financial instruments	2,877
<u>(349,290)</u>			<u>19,395</u>

Notes to the Accounts

1. Introduction

This section contains notes that are intended to aid interpretation of the financial statements (as set out on pages 18 to 21) and provide further information upon the financial performance of the Council during 2007/08. The notes set out within this section are listed below for ease of reference.

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Notes to the Accounts

2. Accounting policies

The basis for the recognition, measurement and disclosure of transactions and other events in the Council's accounts are explained within the Statement of Accounting Policies, which is set out on pages 75 to 91.

3. Service expenditure analysis

The CIPFA Best Value Accounting Code of Practice 2007 (BVACOP) aims to promote consistent financial reporting, by requiring local authorities to analyse services' expenditure, specific grants and income in a standard format. Accordingly, the Council's Income and Expenditure Account provides an analysis of expenditure, specific grant and income over the mandatory headings defined by the BVACOP. The service expenditure analysis provided within the Income and Expenditure Account differs from the Council's internal financial management arrangements, which are centred on the responsibilities of the members of the Council's Cabinet.

The total cost of each service includes all costs arising in the provision of those services, including employee costs, expenditure related to premises and transport, supplies and services, support services, third party and transfer payments and depreciation.

4. Dedicated Schools Grant

The Council's expenditure on schools is funded by a grant awarded by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget.

The Schools Budget includes elements for a restricted range of services provided on an authority wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resources, but has not done so during 2007/08.



Details of the deployment of DSG receivable for 2007/08 are provided in the following table.

Notes to the Accounts

2006/07		2007/08		
		Central Expenditure	Individual Schools Budget	Total
£000		£000	£000	£000
(694,319)	Original grant allocation to Schools Budget for the year	(42,455)	(690,723)	(733,178)
(59)	Adjustment to final grant allocation	(67)	-	(67)
(694,378)	DSG receivable for the year	(42,522)	(690,723)	(733,245)
690,454	Actual expenditure for the year	39,408	687,394	726,802
(3,924)	Over / (under) spend for the year	(3,114)	(3,329)	(6,443)
(45,745)	Under spend from prior year	(96)	(49,573)	(49,669)
(49,669)	Over / (under) spend carried forward	(3,210)	(52,902)	(56,112)

The net under spend against the Individual Schools Budget is held within the Schools 'earmarked revenue reserve' (see note 17 on page 38).

5. Local Authorities (Goods and Services) Act 1970

The Council is empowered, under the Local Authorities (Goods and Services) Act 1970 to enter into agreements with other local authorities and certain prescribed bodies for any of the following purposes:

- Supply of goods and materials
- Provision of administrative, professional or technical services
- Provision of vehicles, plants or apparatus
- Maintenance of land or buildings



The charges levied upon other local authorities and prescribed bodies reflect the estimated full cost of service provision – the aim is to break even, so that the income earned meets the costs incurred.

Notes to the Accounts

Set out in the following table is the income earned from the provision of goods and services by the Council under the 1970 Act.

2006/07 £000		2007/08 £000
	Services	
378	Library services	382
265	Coroners' courts	315
209	Spatial planning	194
207	Emergency Planning	187
97	Historic environment and archaeology	164
161	Education service units	157
90	Urban design and historic buildings advice	147
92	Essex record office	89
-	Environmental Planning	25
17	Tree Inspections	24
	Recharged Strategic Support Services	
1,312	Human resources	1,159
570	Law and administration	591
585	Finance	539
149	Procurement (incl. Car Provision Scheme)	17
170	Information services	-
	Trading activities	
112	Essex Transport	91
5	Reprographics	5
4,419		4,086

Goods and services were provided to bodies that were established to take over functions previously provided by the Council, including to the Essex Police and Fire authorities, the Essex Probation Board, schools and Southend and Thurrock Unitary Authorities.

6. Publicity

In accordance with the requirements of Section 5 (1) of the Local Government Act 1986 the Council's spending on publicity was:

2006/07 £000		2007/08 £000
	Advertising	
1,479	Recruitment	1,630
2,265	Promotions and communications	2,498
588	Cost of staff wholly or mainly engaged on publicity	647
4,332		4,775

Notes to the Accounts

7. Audit costs

The following table provides a summary of the fees incurred by the Council in relation to external audit and inspection.

2006/07 £000		2007/08	
		£000	£000
	Fees payable to the appointed auditor		
519	External audit services carried out by appointed auditor	449	
50	Certification of grant claims and returns	75	
-	Other services carried out by appointed auditor	48	
<u>569</u>			<u>572</u>
	Fees payable to the Audit Commission in respect of statutory inspections		
19			16
<u>588</u>			<u>588</u>

8. Members' allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and to the maximum amounts payable in respect of certain allowances. The total of members' allowances paid in 2007/08 amounted to:

2006/07 £000		2007/08 £000
769	Basic allowances	790
611	Special responsibility allowances	632
<u>1,380</u>		<u>1,422</u>

9. Amounts due to precepting bodies

The following precepts and levies were paid by the Council:

2006/07 £000		2007/08 £000
1,521	Lee Valley Regional Park	1,571
871	Environment Agency	699
201	Kent and Essex Sea Fisheries Committee	209
<u>2,593</u>		<u>2,479</u>

Notes to the Accounts

10. Gains / losses on the disposal of fixed assets

The gain or loss on disposal of fixed assets is the amount by which the disposal proceeds (net of disposal costs) are more (gain) or less (loss) than the carrying amount of the assets.

The gains / losses arising from the disposal of assets comprise:

2006/07 £000		2007/08 £000
(64,172)	Disposal proceeds	(27,583)
<u>68,462</u>	Carrying value of assets disposed of during the year	<u>28,342</u>
4,290		759
1,387	Disposal costs	1,198
(174)	Government grant deferred	(320)
<u>5,503</u>	Net charge to the Income and Expenditure Account	<u>1,637</u>

The disposal costs are the only items that are actually charged against the General Fund Balance in the year.

11. Trading activities

The Council has a number of trading activities that are required to operate in a commercial manner and balance their budget by generating income from other parts of the Council and other organisations. The net surplus or deficit on these trading activities is brought into account when determining the net operating expenditure of the Council.

Details of the Council's trading activities, and a summary of their financial results for 2007/08, are provided in the following table.

Notes to the Accounts

	Balance 1 April 2007	2007/08					Balance 31 March 2008
		Income	Expend- iture	Financing items	Net (Surplus) / deficit	Approp- riations	
	£000	£000	£000	£000	£000	£000	£000
School support services							
School improvement and advisory service Delivery of advisory and inspection, governor services, music services and school library service.	(544)	(8,925)	8,655	-	(270)	72	(742)
Planning and access services (see note i) Delivery of capital programme and building development, planning and admissions service and student and pupil financial support service.	(246)	-	-	-	-	246	-
School Support (Finance) Delivery of financial management support.	(214)	(1,204)	1,016	-	(188)	8	(394)
School Support (Other) (see note i) Delivery of education information management and premises management.	(92)	-	-	-	-	92	-
School staffing insurance scheme A self insurance scheme for schools, supporting sickness and relocation expenses.	(775)	(4,278)	3,701	-	(577)	-	(1,352)
Special educational needs & pupil support (see note i) Delivery of education welfare service, pupil support services, special educational needs and psychology service and youth service.	(674)	-	1	-	1	673	-
Essex equipment service Provision of procurement, warehousing, distribution, collection and refurbishment of equipment to disabled people and patients of social care services, partner NHS Trusts and local councils.	(401)	(8,311)	8,221	-	(90)	39	(452)
Viking community transport (see note ii) Community transport operation for the district area of Maldon.	(57)	(85)	137	-	52	-	(5)
Essex Transport (see note iii) Provision of transport management and vehicle maintenance services.	(1,262)	(3,244)	5,313	144	2,213	(2,576)	(1,625)
Reprographics (see note iv) Provision of reprographics services.	(13)	(708)	566	(3)	(145)	(28)	(186)
	(4,278)	(26,755)	27,610	141	996	(1,474)	(4,756)

Notes:

- (i) The Planning and Access Services, Schools Support (other) and Special Educational Needs and Pupil Support trading activities were closed in 2007/08. These activities are now accounted for within the Income and Expenditure Account (within the Net Cost of Services). The accumulated reserves of these activities have been appropriated to the General Fund Balance.
- (ii) The Viking Community Transport trading activity was closed with effect from March 2008. The provision of this service has been outsourced to the Maldon and District Council for Voluntary Services (Maldon CVS). A contribution of **£52,000** was made to the Maldon CVS as initial funding. Reserves of **£5,000** are being held to meet residual costs.
- (iii) The Essex Transport trading activity was closed on 1 May 2008. Provision of this service has been outsourced to Vehicle Leasing Services (VLS). The assets held by Essex Transport have been sold to VLS.
- (iv) The Reprographics trading activity was closed with effect from 31 March 2008. Provision of this service has outsourced to Corporate Document Services.

Notes to the Accounts

12. Teachers Pensions

The following table shows the amounts the Council paid to the Department for Children, Schools and Families (DCSF) in respect of teachers' pension costs.

2006/07 £000		2007/08 £000
49,825	Employer's contributions	54,715
22,689	Employee contributions	24,659
<u>72,514</u>	Total paid to DCSF	<u>79,374</u>

These amounts reflect:

- An employer contribution of **14.1%**.
- An employee contribution of **6.4%** of teachers' pensionable pay.

The Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2007/08, these amounted to **£3.1m** (2006/07: £2.9m), representing **0.76%** of pensionable pay.

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

13. Local Government Pensions Scheme

13.1 Participation in the Pension Scheme

The Council maintains a pension fund for its employees (other than teachers) and those of other scheduled bodies within its area, in accordance with the Local Government Pension Scheme Regulations 1997. The Fund is also empowered to admit the employees of certain other bodies.



The Council and employees pay contributions into the Pension Fund, calculated at a level intended to balance the pension liabilities with investment assets. The rate of contributions payable by employees is between 5.5% and 7.5% (2006/07: 6% with certain exceptions). Employers are required to contribute at rates prescribed by the Fund's actuary that aim to preserve the Fund's long term financial viability.

Notes to the Accounts

13.2 Transactions relating to retirement benefits

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

The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during the year:

2006/07 £000		2007/08 £000	£000
	Income and Expenditure Account		
	Net cost of Services		
53,043	Current service cost	43,719	
618	Past service cost / (gain)	11,633	
6,927	Curtailment loss/(gain)	1,839	
<u>60,588</u>			<u>57,191</u>
	Net operating expenditure		
72,332	Interest cost	80,597	
(63,667)	Expected return on assets in the scheme	(75,041)	
<u>8,665</u>			<u>5,556</u>
<u>69,253</u>	Net charge to the Income and Expenditure Account		<u>62,747</u>
	Statement of Movement on the General Fund Balance		
(9,459)	Reversal of net charges made for retirement benefits in accordance with FRS17		(5,966)
<u>59,794</u>	Actual amount charged against the General Fund Balance in the year: employers' contributions payable to the Scheme		<u>56,781</u>

13.3 Assets and liabilities in relation to retirement benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

2006/07 £000		2007/08 £000
(1,491,817)	Estimated liabilities in scheme	(1,671,192)
1,143,602	Estimated assets in scheme	1,107,153
<u>(348,215)</u>	Net liability	<u>(564,039)</u>

The liabilities show the underlying commitments the Council has in the long run to pay retirement benefits. The total liability of **£564m** has a substantial impact

Notes to the Accounts

on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. That is, 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's actuary.

13.4 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting, an independent firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at 31 March 2007. The main assumptions used in their calculations were:

2006/07 %		2007/08 %
3.1	Rate of inflation	3.6
4.6	Rate of increase in salaries	5.1
3.1	Rate of increase in pensions	3.6
5.4	Rate for discounting scheme liabilities	6.1
50.0	Take up option to convert annual pension into retirement grant	50.0

Assets in the Pension Fund are valued at fair value, principally market value for investments, totalling **£3,168m** for the Fund as a whole at 31 December 2007, and adjusted for investment returns up to 31 March 2008 (31 March 2007: **£3,043m**).

The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

31 March 2007 %		31 March 2008 %	Long term return %
69.3	Equity investments	70.2	7.5
9.9	Government Bonds	9.4	4.6
6.3	Other Bonds	6.6	6.1
12.5	Property	10.7	6.5
2.0	Cash / liquidity	3.1	5.3
<u>100.0</u>		<u>100.0</u>	

Notes to the Accounts

13.5 Actuarial gains and losses

The actuarial gains and losses identified as movements in the Pension Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March.

	Difference between expected and actual return on assets	Difference between actuarial assumptions about liabilities and actual experience	Changes in demographic and financial assumptions used to estimate liabilities	Net total Gain / (loss)
2007/08				
£000	(123,376)	18,503	(104,985)	(209,858)
%	11.1%	1.1%	6.3%	12.6%
2006/07				
£000	12,600	-	72,008	84,608
%	1.1%	-	4.8%	5.7%
2005/06				
£000	161,547	(27,719)	(111,220)	22,608
%	15.5%	1.9%	7.6%	1.5%
2004/05				
£000	36,261	(3,878)	(204,166)	(171,783)
%	4.4%	0.5%	15.8%	13.5%
2003/04				
£000	93,696	-	-	93,696
%	13.3%	0.0%	0.0%	9.5%

13.6 Pension Reserve

The change in the Pension Reserve for the year is shown in the following table:

2006/07		2007/08	
£000		£000	£000
423,364	Balance as at 1 April		348,215
	Appropriation from Pension Reserve		
53,043	Current service (pension) costs	43,719	
618	Past service cost / (gain)	11,633	
6,927	Curtailment	1,839	
72,332	Interest cost	80,597	
(63,667)	Expected return on assets	(75,041)	
(59,794)	Pension costs payable from Council Tax	(56,781)	
<u>9,459</u>	Total appropriation from / (to) Pension Reserve		5,966
(84,608)	Actuarial loss / (gain)		209,858
<u>348,215</u>	Balance as at 31 March		<u>564,039</u>

Notes to the Accounts

14. General government grants

The following general government grants were received by the Council:

2006/07 £000		2007/08 £000
32,715	Revenue Support Grant	29,620
1,834	Local Authority Business Growth Incentive Grant	1,960
3,763	Public Sector Agreement Reward Grant	-
7,383	General Government Grant Deferred	-
<u>45,695</u>		<u>31,580</u>

General government grants deferred represents government grant or contributions that have been applied to the financing of capital expenditure that cannot be identified to particular assets which are likely to depreciate (see note 35 on page 63).

15. Local Area Agreement Grant

The Council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA has completed the second year of its two year agreement.

Essex's Local Area Agreement is a joint project between the county's thirteen Local Strategic Partnerships, which bring the democratically mandated councils of the county together with the community and voluntary sector and local arms of national public sector organisations. The Essex Partnership is leading on behalf of the other partners. The partners to the LAA:

- Agree specific outcomes and targets that will be achieved each year for the two years of the agreement; and
- Aim to improve the effectiveness and efficiency of public services in Essex by pooling and aligning funding streams.

The LAA partners are:

- **Local government bodies**
 - Essex County Council
 - Braintree District Council
 - Castle Point District Council
 - Colchester District Council
 - Harlow District Council
 - Rochford District Council
 - Uttlesford District Council
 - Basildon District Council
 - Brentwood District Council
 - Chelmsford District Council
 - Epping Forest District Council
 - Maldon District Council
 - Tendring District Council

Notes to the Accounts

- **Community protection authorities:**
 - National Probation Service
 - Essex Police
 - Essex County Fire and Rescue Service

- **Local Strategic Partnerships (LSP's):**
 - Basildon LSP
 - Brentwood LSP
 - Castle Point LSP
 - Colchester 2020 LSP
 - Epping Forest LSP
 - Rochford LSP
 - Tendring LSP
 - Maldon 2010 Partnership
 - Harlow 2020 Partnership
 - Haven Gateway Partnership
 - Braintree PACT (Partners and Communities Together)
 - Thames Gateway South Essex Partnership
 - Uttlesford Futures Chelmsford Strategic Partnership Board

- **Health bodies:**
 - North East Essex PCT
 - South West Essex PCT
 - South East Essex PCT
 - West Essex PCT
 - Mid Essex PCT
 - South Essex Partnership NHS Foundation Trust
 - East of England Strategic Health Authority
 - Basildon and Thurrock University Hospitals NHS Foundation Trust

- **Learning bodies:**
 - Essex Learning and Skills Council
 - University of Essex
 - Essex, Southend and Thurrock Connexions

- **Voluntary organisations:**
 - Essex Council for Voluntary Youth Services
 - Families In Focus
 - Essex, Southend and Thurrock Infrastructure Consortium
 - Interlock
 - Rural Community Council for Essex

- **Non Departmental Public Bodies**
 - Sport England
 - Haven Gateway Partnership
 - Thames Gateway South Essex Partnership

Notes to the Accounts

Essex County Council acts as the accountable body for the LAA. This means that the Council is responsible for managing the distribution of grant paid by the Government Office to the partners involved. The Council also determines which bodies are due payments and, in this context, the Council acts as the principal in the partnership and has therefore recognised all LAA grant receivable and payable as income and expenditure in its financial statements.



The total amount of LAA grant received by the Strategic Partnership in 2007/08 is **£14.845m** (2006/07: £3.918m). The Council received **£9.462m** of this total to fund its own services (2006/07: £123,000).

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems are in place for distributing grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

16. Movement on the General Fund Balance

The Income and Expenditure Account (see page 18) shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated in 2007/08. However, the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The following table provides an analysis of the amounts apart from the outturn on the Income and Expenditure Account required by statute or non statutory proper practices to be debited or credited to the General Fund Balance for the year.

Notes to the Accounts

2006/07 £000	Note		2007/08 £000
		Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance	
(162)	38	Amortisation of intangible fixed assets	(320)
(28,532)	↓	Depreciation of fixed assets	(33,870)
	↓	Impairment of fixed assets	(26,541)
(207)	↓	Capital Adjustment Account - deferred consideration	(208)
33,947	35	Government Grant Deferred amortisation	32,732
(45,921)	24	Write down of deferred charges financed from capital resources	(45,186)
(4,290)	10	Net (loss) / gain on the sale of fixed assets	(759)
-	40	Amortisation of premiums / discounts to the General Fund	109
-	40	Transfer from the General Fund for the difference between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early discounts on the early repayment of debt	(1,954)
<u>(69,253)</u>	13	Net charges made for retirement benefits in accordance with FRS 17	<u>(62,747)</u>
<u>(114,418)</u>			<u>(138,744)</u>
		Amounts not included in the Income and Expenditure Account but required by statute when determining the movement on the General Fund Balance	
19,961		Minimum revenue provision for capital financing	20,759
6,361		Capital expenditure charged in year to the General Fund Balance	29,568
59,794	13	Employer's contributions payable to the Pension Fund	56,781
<u>86,116</u>			<u>107,108</u>
		Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
8		Voluntary revenue provision for capital financing	14,847
26,001	17	Net transfers to earmarked reserves	17,045
<u>26,009</u>			<u>31,892</u>
<u>(2,293)</u>		Net additional amount required to be credited to the General Fund Balance of the year	<u>256</u>

Notes to the Accounts

17. Earmarked revenue reserves

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

Reserves	Purpose and usage
Schools	Schools are permitted to retain unspent resources (whether planned or unplanned), which are held in the Schools Reserves. The statutory authority to commit such resources rests with school governors.
Future capital funding	Comprises revenue contributions to be used to supplement the resources available to finance future capital expenditure.
PFI reserves	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.
Waste reserve	To smooth the effects of future increases in the costs of waste disposal.
Landfill allowances	To meet the Council's future biodegradable municipal waste landfill usage liabilities.
Service improvements	Used to initially meet the costs of restructuring where these cannot be met by the relevant services in-year, and to hold savings that will be used to re-invest in corporate priorities, as well as 'pump prime' proven efficiency projects.
IMT development	Provides for future costs of developing the Council's information technology strategy.
Debt financing	To meet costs arising from the refinancing and management of the Council's debt portfolio.
Trading activities	Surpluses generated by trading activities, to be applied by these activities in subsequent years.
ExDRA partnership	To meet costs associated with the Council's partnership with the Essex Development and Regeneration Agency (ExDRA).
Insurance	Provides for future potential and contingent liabilities for insurance claims.
Transformation	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.
Health and safety	Used to meet the costs of undertaking asbestos, legionella and disability discrimination act surveys.
Carbon reduction	Used to finance measures aimed at reducing the Council's carbon footprint.
Partnerships	To retain unspent contributions from partners and apply them in subsequent years.

Notes to the Accounts

Reserves	Purpose and usage
Tendring PPP	To meet costs associated with the Tendring PPP contract.
Essex Art Fund	Used to purchase and commission art by Essex artists.

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

	Balance 1 April 2007	2007/08 Movements in Reserves			Balance 31 March 2008
		Contributions	Withdrawals	Net Movement	
	£000	£000	£000	£000	£000
Schools	(49,573)	(12,826)	9,497	(3,329)	(52,902)
Future capital funding					
General	(28,905)	(13,588)	29,188	15,600	(13,305)
Trading					
Essex Transport	(110)	(263)	373	110	-
Reprographics	(30)	30	-	30	-
Bellhouse landfill site	(68)	-	7	7	(61)
Historic Buildings	(120)	-	-	-	(120)
	(29,233)	(13,821)	29,568	15,747	(13,486)
Equalisation reserves					
PFI equalisation reserves					
A130 PFI	(38,826)	(6,227)	-	(6,227)	(45,053)
Debden PFI	(4,446)	(487)	-	(487)	(4,933)
Clacton Secondary schools	(9,164)	(359)	5,604	5,245	(3,919)
Waste Reserve	(2,561)	(8,474)	-	(8,474)	(11,035)
Landfill Allowances	(385)	-	385	385	-
	(55,382)	(15,547)	5,989	(9,558)	(64,940)
Other reserves					
Service Improvement	(20,576)	(31,107)	15,560	(15,547)	(36,123)
IMT Development	(5,790)	(2,455)	1,966	(489)	(6,279)
Debt financing	(5,600)	-	-	-	(5,600)
Trading activities	(4,278)	(1,541)	1,063	(478)	(4,756)
ExDRA partnership	(1,675)	(2,000)	1,850	(150)	(1,825)
Insurance	(3,612)	(687)	1,267	580	(3,032)
Transformation reserve	-	(3,000)	-	(3,000)	(3,000)
Health and safety	(232)	(2,505)	725	(1,780)	(2,012)
Carbon Reduction	-	(2,000)	895	(1,105)	(1,105)
Partnerships	(540)	(455)	125	(330)	(870)
Tendring PPP	-	(430)	-	(430)	(430)
Essex Art Fund	(131)	(50)	-	(50)	(181)
	(42,434)	(46,230)	23,451	(22,779)	(65,213)
Total	(176,622)	(88,424)	68,505	(19,919)	(196,541)

Notes to the Accounts

18. Officers remuneration

Officers' remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax and the money value of benefits. Pension payments made, whether from a funded or unfunded scheme, do not count as remuneration.

The number of officers whose remuneration in 2007/08 were £50,000 or more, grouped in rising bands of £10,000, are listed in the following table.

2006/07 No. of employees	Remuneration band			2007/08 No. of employees
388	£50,000	to	£59,999	575
99	£60,000	to	£69,999	187
50	£70,000	to	£79,999	55
25	£80,000	to	£89,999	39
12	£90,000	to	£99,999	21
3	£100,000	to	£109,999	5
4	£110,000	to	£119,999	8
3	£120,000	to	£129,999	1
-	£130,000	to	£139,999	2
1	£140,000	to	£149,999	-
-	£150,000	to	£159,999	1
-	£160,000	to	£169,999	2
1	£170,000	to	£179,999	-
-	£200,000	to	£209,999	1
-	£250,000	to	£259,999	1

19. Related party declarations

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

Related Party	Declaration
Central Government	Central government has effective control over the general operations of the Council. It is responsible for 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.

Notes to the Accounts

Related Party	Declaration
Elected members	<p>Members of the Council have direct control over the general operations of the Council's financial and operating policies.</p> <p>During 2007/08 works and services were commissioned from organisations in which certain members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders and procurement rules, and were minor in nature and value.</p> <p>In addition, grants were paid to voluntary organisations in which several members had an interest. The decisions to award the grants were made with proper consideration of declarations of interest.</p>
Officers	<p>Members of the Council's Corporate Leadership Team, and other officers with independent statutory powers, could influence significantly the policies of the authority.</p>
Pension Fund	<p>The Council administers the Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies. The Council charged £2.046m for administering the Fund during 2007/08 (2006/07: £2.029m).</p> <p>The interest earned on the cash balances of the Pension Fund that were held temporarily by the Council was attributed to the Fund. This amounted to £842,000 in 2007/08 (2006/07: £699,000).</p>
Essex Police Authority	<p>The Essex Police Authority invested cash balances with the Council during 2007/08, up until 1 October 2007. The Council paid the Police Authority interest on the amounts deposited at the prevailing 'local authority seven day rate'. The interest payments amounted to £720,000 (2006/07: £1.418m).</p> <p>The Council provided support services to the Essex Police Authority in 2007/08 to the value of £549,000 (2006/07: £465,000).</p>
Essex Fire Authority	<p>The Council's Monitoring Officer is also employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provided financial and other support services to the Fire Authority during 2007/08. The total value of these services in 2007/08 was £464,000 (2006/07: £579,000).</p> <p>The Council borrowed the surplus cash balances of the Fire Authority and lent to it, to offset its temporary shortfalls in cash. The Council paid interest on the amounts borrowed from the Fire Authority of £177,000 and recovered interest of £69,000 on amounts it invested with the Fire Authority during 2007/08 (2006/07: £25,000 and £38,000 respectively). The interest charged and recovered was determined with reference to the prevailing Local Authority Seven Day Rate.</p>

Notes to the Accounts

Related Party	Declaration
Essex Probation Board	<p>The Council provided financial and other support services to the Essex Probation Board during 2007/08. The value of the services provided in 2007/08 was £296,000 (2006/07: £264,000).</p> <p>The Council undertakes the management of the Probation Board's surplus cash balances. The Council paid interest of £137,000 on the amounts borrowed (determined at the prevailing Local Authority Seven Day Rate) (2006/07: £115,000).</p>
London Probation Board	<p>The Council provided legal services to the London Probation Board during 2007/08. The charge levied for these services amounted to £201,000 (2006/07: nil).</p>
Brentwood Borough Council	<p>The Council has entered into an agreement with Brentwood Borough Council to create a strategic partnership to improve two tier working. The objective is to improve service delivery and enhance the authorities' understanding of each other.</p> <p>The Council's Chief Executive, Joanna Killian, also fulfils the role of Chief Executive for Brentwood Borough Council, providing strategic management and coordination under the terms of a contract for services. Brentwood Borough Council pays an agreed sum (£30,000 per annum) to the Council in recognition of the role and time involved.</p>
ExDRA	<p>The Council's Executive Director for Schools, Children and Families, Graham Tombs, also fulfils the role of Chief Executive for the Essex Development and Regeneration Agency (ExDRA). ExDRA paid the Council £9,000 in 2007/08 in recognition of the role and time involved.</p>
Thames Chase Joint Committee	<p>Thames Chase is a local partnership project between Essex County Council, Brentwood Borough Council, Thurrock Council and the London Boroughs of Havering and Barking and Dagenham.</p> <p>Essex County Council is the accountable body for the Joint Committee, which means it employs the Thames Chase staff, and maintains the accounts of the Joint Committee. The Council's Head of Corporate Finance is the Treasurer to the Joint Committee.</p> <p>The Council provided support services to the Joint Committee in 2007/08, to the value of £5,000 (2006/07: £22,000).</p>

Notes to the Accounts

20. Net fixed assets

The following table summarises the net movement in fixed assets during 2007/08.

	Intangible Assets		Operational fixed assets			Non operational assets		Total
	£000	£000	Land and buildings	Vehicles and equipment	Infra-structure	Community Assets	Surplus assets held for disposal	
	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value								
As at 1 April 2007	959	2,101,689	17,446	385,409	1,571	82,454	22,271	2,611,799
Additions	-	2,748	-	39	-	117,007	536	120,330
Disposals	-	(27,433)	(1,738)	-	-	-	(622)	(29,793)
Revaluations	-	165,449	(436)	-	-	-	1,938	166,951
Impairments	-	(27,854)	(5,814)	-	(106)	-	(127)	(33,901)
Transfers	650	38,162	4,986	94,783	350	(138,981)	50	-
As at 31 March 2008	1,609	2,252,761	14,444	480,231	1,815	60,480	24,046	2,835,386
Depreciation								
Total as at 1 April 2007	(320)	(35,657)	(8,566)	(82,080)	(19)	-	(208)	(126,850)
Revaluations and restatements	-	16,892	455	-	-	-	23	17,370
Impairments	-	1,531	3,433	-	-	-	14	4,978
Depreciation for the year	(320)	(17,691)	(2,203)	(13,998)	(3)	-	(120)	(34,335)
Depreciation on assets sold	-	137	1,347	-	-	-	-	1,484
Total as at 31 March 2008	(640)	(34,788)	(5,534)	(96,078)	(22)	-	(291)	(137,353)
Net book value at 31 March 2008	969	2,217,973	8,910	384,153	1,793	60,480	23,755	2,698,033
<i>Net book value as at 1 April 2007</i>	639	2,066,032	8,880	303,329	1,552	82,454	22,063	2,484,949

Notes to the Accounts

21. Valuation of fixed assets

The freehold and leasehold properties within the Council's property portfolio are valued, under a rolling five year programme, by the Council's property advisors (Lambert Smith Hampton). All valuations are undertaken in accordance with the Statement of Asset Valuation Practice and Guidance notes of the Royal Institute of Chartered Surveyors (RICS).

The vehicles, plant and equipment owned by the Council's trading activities was valued, in March 2008, at net realisable value. Commercial vehicles were valued by the CAP organisation and Dorrington Municipal Services. Plant and equipment was valued by Dorrington Municipal Services, Brighty Lift Services and Powell and Coppen.

The timing and amounts of the valuations of each class of asset are summarised in the following table:

Valuation year	Intangible assets £000	Land & Buildings £000	Vehicles, plant and equipment £000	Infra- structure £000	Community Assets £000	Non- operational assets £000
Valued at historic cost	1,609	-	12,027	480,231	1,815	-
Valued at current value in:						
2001/02	-		-	-	-	4
2002/03	-	153	-	-	-	9
2003/04	-	282,087	-	-	-	46
2004/05	-	198,950	-	-	-	3,681
2005/06	-	323,818	-	-	-	4,566
2006/07	-	357,544	-	-	-	5,755
2007/08	-	1,090,209	2,417	-	-	9,985
	1,609	2,252,761	14,444	480,231	1,815	24,046

The assets not valued since 2001/02 are mostly sites upon which construction works are being undertaken; the revaluations will be undertaken upon completion of the construction works.

An estimate has been made of the increase in value of land and buildings using the average price increase indices since March 2001, supplied by the Council's property advisors, relative to the last valuations undertaken under the rolling programme.

If applied to the land and buildings fixed assets, this would increase the gross book value of standard assets as follows:

Notes to the Accounts

	Land and Buildings £m	Surplus assets held pending disposal £m
Gross book value per rolling revaluation programme	2,252.8	24.0
Estimate of gross book value using average price increase indices	2,433.4	26.7

22. Foundation and voluntary aided schools

Fixed assets and long term liabilities of individual foundation schools are not incorporated into the Council's Balance Sheet (see note 10.9 of the Statement of Accounting Policies, on page 85).

There are **106** (2006/07: 107) foundation schools, with an estimated fixed asset valuation of **£1,725.9m** at 31 March 2008 (2006/07: £1,621m). A number of these schools have taken out long term loans with the permission of the Department for Education and Skills. The outstanding balance on these loans was **£0.4m** (2006/07: £0.5m), repayable over an average period of 6 years (2006/07: 8 years).



There are a further **150** schools that are not incorporated into the Council's Balance Sheet, namely voluntary aided schools that are mainly owned by churches. These schools have an estimated fixed asset valuation of **£1,052.1m** as at 31 March 2008 (31 March 2007: £1,063m).

A number of foundation and voluntary aided schools have acquired the use of a variety of assets under lease agreements, including equipment, plant and vehicles. These schools are committed to making payments under these lease agreements for several years into the future. The following table provides an analysis of the payments which these schools are committed to make in 2008/09:

	2008/09 £000
One year	626
Two to five years	1,907
Over five years	62
Total lease rentals	2,595

Notes to the Accounts

23. Analysis of land and property assets

The land and property assets held by the Council as at 31 March are as follows:

2007		2008
1,306	Freehold land (hectares)	1,298
	Infrastructure (kilometres)	
594	Principal roads	594
6,805	Other roads	6,805
<u>7,399</u>	Total Infrastructure (kilometres)	<u>7,399</u>
	Property assets (number)	
1	County Hall	1
	Education	
2	Nursery schools	2
286	Primary schools (<i>excl. aided and foundation schools</i>)	282
25	Secondary schools (<i>excl. aided and foundation schools</i>)	24
21	Special schools (<i>excl. aided and foundation schools</i>)	19
57	Youth, adult and community centres	53
167	Teachers' and caretakers' houses	165
48	Other education properties	46
	Social Care	
-	Children's centres	37
12	Community homes for children	13
9	Day nurseries and family centres	9
7	Adult residential homes	7
35	Adult day care centres	34
34	Other Social Services properties	34
	Highways	
14	Highway depots	14
32	Other highway properties	35
57	Libraries (<i>including Library Headquarters</i>)	56
	Other	
13	Civic amenity points	15
27	Farms and cottages	27
13	Gypsy sites	13
9	Country parks	9
10	Register offices	10
2	Records Offices	2
1	Shire Hall	1
1	Cressing Temple	1
1	Trading depots	1
48	Other miscellaneous county properties	42
<u>932</u>	Property assets (number)	<u>952</u>

Notes to the Accounts

24. Deferred charges

Deferred charges represent capital expenditure that does not result in, or remain matched with, assets controlled by the Council. The Council seldom controls the economic benefits arising from this expenditure. Accordingly, the expenditure is fully amortised to the Income and Expenditure Account in the year that it arises.

An analysis of the deferred charges expenditure incurred, and fully amortised to the Income and Expenditure Account, is provided in the following table.

2006/07 £000		2007/08 £000
30,288	Foundation schools	24,744
8,625	Information technology	5,582
7,008	Other	14,860
<u>45,921</u>		<u>45,186</u>

25. Financing of capital expenditure

The following table provides an analysis that shows the way in which capital expenditure was financed.

2006/07 £000		2007/08	
		£000	£000
49,167	Borrowing		43,974
48,980	Government grants and contributions		76,335
55,078	Capital receipts		15,638
	Earmarked reserves applied		
159	Trading activities	373	
6,167	Reserve for future capital funding	29,188	
35	Bellhouse landfill site reserve	7	
<u>159,586</u>	Total		<u>29,568</u>
			<u>165,515</u>

Notes to the Accounts

26. Significant commitments under capital contracts

The estimated value of significant commitments under capital contracts as at 31 March are summarised in the following table.

2007 £000		2008 £000
3,344	Highways and Transportation	858
11,403	Education (schools)	20,520
4,741	Other	2,760
<u>19,488</u>		<u>24,138</u>

27. Leases

27.1 Council as lessee

The Council has acquired the use of a variety of assets under operating and finance lease agreements, including equipment, plant, vehicles and properties. The arrangements for accounting for these leases are explained within paragraph 12 of the Statement of Accounting Policies, which commences on page 86. An analysis of the lease rental payments made in 2007/08 is provided in the following table.

2006/07		2007/08	
£000		Operating leases £000	Finance Leases £000
2,374	Property	2,570	-
3,832	Other	5,103	289
<u>6,206</u>	Lease rental payments	<u>7,673</u>	<u>289</u>

Note:

Finance lease obligations were not recognised within the Council's accounts prior to 2007/08.

The Council is committed to making payments under these lease arrangements for several years into the future.

Notes to the Accounts

The following table shows the payments which the Council is committed to make during the next year (2008/09) in relation to operating leases, analysed between those in which the commitments expire within a year, in the second to fifth year inclusive and over five years from the Balance Sheet date.

31 March 2007 £000		31 March 2008		
		Property £000	Other £000	Total £000
	Operating leases			
1,113	One year	698	1,361	2,059
3,176	Two to five years	716	3,355	4,071
1,222	Over five years	1,222	55	1,277
5,511	Total lease rentals	2,636	4,771	7,407

The following table discloses the gross amounts of assets held under finance leases, together with accumulated depreciation:

	31 March 2008		
	Gross book value £000	Accumulated depreciation £000	Net book value £000
Balance at 1 April 2007	891	(348)	543
Movement in 2007/08	-	(243)	(243)
Balance at 31 March 2008	891	(591)	300

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2008, accounted for as part of long term liabilities, are as follows:

	Vehicles plant and equipment £000
Obligations payable in 2008/09	139
Obligations payable between 2009/10 and 2012/13	159
Obligations payable after 2012/13	2
Total liabilities as at 31 March 2008	300

Notes to the Accounts

27.2 Council as lessor

In certain circumstances, the Council rents properties to third parties under operating lease arrangements. The following table shows the gross amounts of these assets, and the related accumulated depreciation.

31 March 2007		31 March 2008		
Net book value £000		Gross book value £000	Accumulated depreciation £000	Net book value £000
6,810	Property	7,810	(93)	7,717

The rent receivable for leasing properties to third parties amounts to **£379,000** per annum (2006/07: £374,000).

The Council does not acquire any assets specifically for the purpose of letting under operating or finance lease.

28. Long term debtors

An analysis of long term debtors is provided in the following table.

31 March 2007 £000		31 March 2008 £000
	Debt outstanding on assets transferred to:	
19,666	Southend Unitary Authority	18,853
14,908	Thurrock Unitary Authority	-
1,255	Further Education Colleges	1,141
	Amounts due from district councils in relation to local enforcement of on-street parking schemes	
1,110		964
	Loans to staff for purchase of cars for use on Council business	
112		97
	Amounts due from care homes and day care providers	
79		491
	Private street work advances	
31		30
	Deferred capital receipts	
18,517		-
<u>55,678</u>	Balance as at 31 March	<u>21,576</u>

Notes to the Accounts

29. Private Finance Initiative / Private Partnership schemes

29.1 Private Finance Initiative (PFI) schemes

The Council has entered into several PFI schemes, as detailed within policy note 11 of the Statement of Accounting Policies, on page 85.

The following table provides:

- An analysis of the payments the Council has made for services provided under these contracts, which are charged to the Net Cost of Services within the Income and Expenditure Account.
- The government grants received towards the capital element of these schemes, and the amounts appropriated to the PFI earmarked revenue reserves.
- The effect of writing down the deferred consideration, which reflects the attributable amount of implicit abatement that the Council receives for assets leased to the PFI / PPP contractors.

2006/07				2007/08		
A130 Road scheme	Debden Park school	Clacton Secondary school		A130 Road scheme	Debden Park school	Clacton Secondary school
£000	£000	£000		£000	£000	£000
8,552	2,184	5,600	Payments to contractors	8,897	2,328	11,733
-	2	28	Deferred consideration	-	2	28
(11,039)	(1,236)	(3,565)	Grant received	(10,597)	(1,186)	(3,422)
6,095	598	2,196	Appropriation to earmarked revenue reserve	6,227	487	(5,245)
3,608	1,548	4,259		4,527	1,631	3,094

Note:

Clacton PFI reserve has been reduced in 2007/08. This reduction has been made to correspond with the de-recognition of payments made to finance the scheme at the beginning of the project.

29.2 Public / Private Partnership (PPP) schemes

The Council has also entered into a PPP scheme, to enhance primary school provision within the Tendring area. Payments to the contractor for services provided are accounted for within the Income and Expenditure Account, within the Net Cost of Services.

Notes to the Accounts

The payments, and a consideration for assets leased to the contractor, are set out within the following table.

2006/07 £000		2007/08 £000
2,498	Payments to contractor	2,568
178	Deferred consideration	178
2,676	Total	2,746

29.3 Payments to service providers

Payments to the service providers under these schemes depend upon a number of factors, including the performance of the contractors.

The following table provides the best estimate of payments in future periods on each scheme, on the assumption that the contractors provide a reliable service, discounted at the Treasury Discount Rate of **3.5%** (2006/07: 3.5%).

Timing of estimated payments	PFI schemes			PPP scheme
	A130 Road scheme £m	Debden Park school £m	Clacton Secondary school £m	Tendring Primary schools £m
Within one year	9	2	6	3
Between 1 and 5 years	34	8	21	10
Between 5 and 10 years	39	9	22	10
Between 10 and 15 years	39	8	18	9
Between 15 and 20 years	23	6	15	7
Between 20 and 25 years	3	3	12	6
Between 25 and 30 years	-	-	6	1
	147	36	100	46

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

Notes to the Accounts

30. Financial Instruments

30.1 Balances

The following categories of financial instruments are held within the Council's Balance Sheet:

31 March 2007			31 March 2008	
Long term £000	Current £000		Long term £000	Current £000
Financial assets - Loans and receivables				
-	192,333	Investments	82,094	172,429
-	13,817	Cash	-	21,414
55,678	87,010	Debtors (contractual)	21,576	109,198
<u>55,678</u>	<u>293,160</u>	Total	<u>103,670</u>	<u>303,041</u>
Financial liabilities at amortised cost				
-	(210,959)	Creditors	-	(210,482)
(309,066)	(28,316)	Borrowing	(361,758)	(5,340)
<u>(309,066)</u>	<u>(239,275)</u>	Total	<u>(361,758)</u>	<u>(215,822)</u>

30.2 Interest payable and similar charges

The following table provides an analysis of the items included within the Income and Expenditure Account under the heading of interest payable and similar charges.

2006/07 £000			2007/08 £000	
£000			£000	£000
18,960	External interest payable			17,422
Premiums and discounts on early repayment of debt				
Early redemption of debt in 2007/08:				
-	Premiums arising		5,318	
-	Discounts arising		(3,317)	
Early redemption of debt in prior years:				
108	Amortisation of premiums		-	
(288)	Amortisation of discounts		-	
			<u>2,001</u>	
(143)	Loan charges grant			(135)
(1,528)	Contributions by other local authorities towards the repayment of debt			(15,726)
<u>17,109</u>				<u>3,562</u>

With effect from 2007/08, premiums and discounts arising as a consequence of the early redemption of debt are charged in full to the Income and Expenditure Account. Premiums and discounts associated with the early redemption of debt in previous years are being amortised to the Statement of Movement on the General Fund Balance over a period of years, where the premiums and discounts can be linked to the refinancing of debt.

Notes to the Accounts

The significant increase, in 2007/08, in the contributions by other local authorities towards the repayment of debt relates to the full repayment by Thurrock Council of its share of debt.

30.3 Interest receivable

The following table shows the external interest earned from investments, and the amounts that have been allocated in respect of sums held on behalf of individuals and other organisations:

2006/07 £000		2007/08 £000
(14,510)	External interest received	(19,396)
2,220	Amounts allocated to sums held on deposit with the Council	3,022
<u>(12,290)</u>	Balance retained in the Income and Expenditure Account	<u>(16,374)</u>

30.4 Fair value of assets and liabilities carried at amortised cost

The fair values of borrowings have been determined with reference to the 'premature repayment' set of PWLB rates in force at 31 March 2008. No early repayments or impairments have been recognised.

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

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In some cases, there is no difference between the carrying value and fair value of financial instruments. The following table provides an analysis of those instruments where the carrying value and fair value differ:

31 March 2007			31 March 2008	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
(337,382)	(328,412)	Borrowing	(367,098)	(384,603)
192,333	192,333	Investments	254,523	257,501

The fair value of borrowings is more 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 rates available for similar loans at the balance sheet date.

Notes to the Accounts

The fair value of investment is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.



30.5 Disclosure of the nature and extent of risks arising from financial instruments

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

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

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

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

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

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

Notes to the Accounts

Credit risk

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

The Council aims to minimise the credit risks associated with depositing funds with banks and financial institutions by only placing funds with those counterparties that have credit ratings equivalent to, or better than, the credit rating criteria set out within the Council's annual investment strategy. The credit rating criteria are further applied to determine the maximum amount that can be invested with any counterparty and the maximum period of those investments. Application of the credit rating criteria set out within the Annual Investment Strategy means that the maximum amount that can be lent to any one of the highest rated financial institutions is **£50m**.

The following analysis summarises the Council's potential maximum exposure to credit risk based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2008	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2008	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions				
AAA rated	-	0.001%	0.001%	-
AA rated	200,400	0.027%	0.027%	54
A rated	50,600	0.627%	0.627%	317
				371
Debtors (contractual)	130,774	9.8%	9.8%	12,774
Potential maximum exposure to credit risk				13,145

No credit limits were exceeded during 2007/08 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Of the total amount of debtors at 31 March 2008, **£30.261m** is past its due date for payment.

Notes to the Accounts

The past due amount can be analysed by age as follows:

2006/07 £000		2007/08 £000
5,664	Less than three months	13,182
2,170	Three to six months	2,296
3,741	Six months to one year	5,732
8,608	More than one year	9,051
<u>20,183</u>	Total	<u>30,261</u>

Liquidity risk

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

The strategy is to ensure a relatively even debt maturity profile through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

2006/07 £000	Repayment period	2007/08				Total £000
		PWLB £000	Money Market £000	Castle Point DC £000	Other £000	
28,316	Less than one year	3,331	932	22	1,055	5,340
<u>28,316</u>	Short term borrowing	<u>3,331</u>	<u>932</u>	<u>22</u>	<u>1,055</u>	<u>5,340</u>
22	Between 1 and 2 years	5	-	13	-	18
4,035	Between 2 - 5 years	8	-	16	-	24
16,005	Between 5 - 10 years	5,000	-	3	-	5,003
289,004	Over 10 years	279,709	77,000	4	-	356,713
<u>309,066</u>	Long term borrowing	<u>284,722</u>	<u>77,000</u>	<u>36</u>	<u>-</u>	<u>361,758</u>
<u>337,382</u>	Total borrowing	<u>288,053</u>	<u>77,932</u>	<u>58</u>	<u>1,055</u>	<u>367,098</u>

All trade and other payables are due to be paid in less than one year.

Notes to the Accounts

Market risk

▪ Interest rate risk

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the Statement of Total Recognised Gains and Losses.



The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of **25%** of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances are favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

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

Notes to the Accounts

According to this assessment strategy, at 31 March 2008, if interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowing	425
Increase in interest receivable on variable rate investments	(212)
Impact on Income and Expenditure Account	213

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

- **Price risk**

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund.

- **Foreign exchange risk**

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

31. Landfill allowances

The Landfill Allowances Trading Scheme (LATS) commenced operation on 1 April 2005, and will operate until 31 March 2020. LATS is a ‘cap and trade’ scheme under which the Council receives tradable landfill allowances that it may use to meet its liability for biodegradable municipal waste landfill usage or sell to another waste disposal authority. Where the Council uses more landfill than can be covered by the LATS allowances allocated to it, it must purchase allowances from another authority, or pay a financial penalty to the Department for Environment, Food and Rural Affairs (DEFRA).



The basis upon which the Council accounts for LATS allowances is explained within policy note 17 of the Statement of Accounting Policies on page 88.

Notes to the Accounts

LATS allowances are initially measured at their fair value, and subsequently measured at the lower of initial recognition value and net realisable value. DEFRA advised that the weighted average value of vintage allowances traded in 2007/08 was **£5.00** per tonne (2006/07: £17.98). However, the majority of allowances traded during 2007/08 were at nil value. The Council has therefore taken the view that its allowances have no net realisable value (2006/07: £5.00), and has written down its allowances to reflect this view.

The following table provides a summary of movements in the value of landfill allowances held on the Council's Balance Sheet:

2006/07 £000		2007/08 £000	£000
7,593	Balance at 1 April		2,122
1,801	Allocation of vintage allowances	-	
360	Purchase of vintage allowances	-	
(933)	Write down of allowances to net realisable value	(472)	
(6,699)	Allowances discharged	(1,650)	
<u>(5,471)</u>			<u>(2,122)</u>
<u>2,122</u>	Balance as at 31 March		<u>-</u>

32. Deferred credits

Deferred credits represent income still to be received, where the Council has agreed that amounts are payable beyond the next year, either at a specific point in the future, or by an annual sum over a period of time.

The following table provides an analysis of the amounts recognised on the Balance Sheet as deferred credits.

31 March 2007 £000		31 March 2008 £000
	Repayment of debt	
19,666	Southend Unitary Authority	18,853
14,908	Thurrock Unitary Authority	-
1,290	Local enforcement of on-street parking schemes	1,107
<u>35,864</u>	Balance as at 31 March	<u>19,960</u>

The amount shown in respect of Southend Unitary Authority represents future contributions to the Income and Expenditure Account arising from the repayment of debt (principal) consequent upon local government reorganisation. Thurrock Unitary Authority repaid its share of the debt in full by 31 March 2008.

Notes to the Accounts

The sum shown in respect of decriminalisation of parking enforcement schemes represents amounts due from various Essex district and borough councils.

33. Provisions

The Council maintains several provisions, which represent amounts set aside to meet obligations related to events that have taken place which probably require settlement by the transfer of economic benefits, but the timing of the transfer is uncertain.

Details of the provisions currently held are as follows:

Provision	Background
Insurance Provision	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self insured elements of the Council's insurance programme and other claims related to the period when Independent Insurance was the Council's insurer.</p> <p>Independent Insurance was the Council's insurer for the liability classes of business from 1st April 1993 to 31st March 2001, and went into provisional liquidation on 17th June 2001. It is currently not expected that any payments will be received from Independent Insurance.</p>
Section 117	<p>This Provision represents estimated outstanding claims by service users who were charged for care under Section 117 of the Mental Health Act 1983. Settlement of these claims is likely to be spread over a number of years. When the Act was introduced, it did not clearly indicate whether service users receiving aftercare under Section 117 could be charged. The Council, along with many other authorities, charged service users for residential care. Following a ruling by the House of Lords, and the Local Government ombudsman, it is now clear that Section 117 aftercare is not chargeable. The Council therefore has a duty to repay charges already made.</p>
Landfill allowances	<p>This Provision represents the Council's liability in respect of landfill allowances incurred as biodegradable municipal waste is sent to landfill. This obligation is recognised as a provision on the Council's Balance Sheet.</p>
Capital gain share	<p>This provision represents the outstanding liabilities of the Council arising from capital contracts.</p>
Other	<p>This provision has been established in respect of a commercially sensitive matter.</p>

Notes to the Accounts

A summary of the movement in the level of the provisions maintained by the Council is provided in the following table.

	Balance 1 April 2007	2007/08 Movements in Reserves			Net Movement	Balance 31 March 2008
		Amounts arising	Amounts returned to I & E Account	Utilised		
	£000	£000	£000	£000	£000	£000
Insurance	(21,241)	(9,122)	-	3,414	(5,708)	(26,949)
S117 Provision	(433)	-	11	23	34	(399)
Landfill allowances	(1,638)	-	-	1,638	1,638	-
Capital gain share	-	(130)	-	-	(130)	(130)
Other	-	(1,800)	-	-	(1,800)	(1,800)
Total	(23,312)	(11,052)	11	5,075	(5,966)	(29,278)

34. Contingent liabilities

A claim has been lodged against the Council, by Premier Recycling, regarding the tender for the provision of civic amenity sites in North Essex. The claim is currently at an early stage, and it is therefore uncertain whether the claim will be upheld. The Council has estimated that the liability may amount to **£1m**.



A claim has been made against the Council for compensation for loss of land as a result of construction of the A130. The level of the compensation has been agreed and the Council are in the process of paying the final instalments. However, the settlement of the legal costs relating to this claim has yet to be agreed by an independent tribunal. The Council is not able to make a reasonable estimate of the costs that might be payable; the maximum liability is however estimated at **£360,000**. This matter is due to be settled during 2008/09.

Notes to the Accounts

35. Deferred grants and contributions

When a government grant or contribution has been applied to the financing of capital expenditure on fixed assets, a balance is established in the Deferred Grants and Contributions Account which is then released to the Income and Expenditure Account to offset the depreciation that is charged on the assets.

The write down of the government grants deferred balance is based upon the relevant depreciation policies adopted for the assets. However, where the grants cannot be identified to particular assets that are likely to depreciate, the grant is credited fully to the Income and Expenditure Account.

The movements on the Government Grants Deferred Account are summarised as follows:

2006/07				2007/08		
Unapplied grant £000	Applied grant £000	Total £000		Unapplied grant £000	Applied grant £000	Total £000
(15,325)	(152,210)	(167,535)	Balance as at 1 April	(7,231)	(167,243)	(174,474)
14,240	(14,240)	-	Application of amounts previously unapplied	4,872	(4,872)	-
(6,146)	(34,740)	(40,886)	Grants and contributions received	(8,369)	(71,463)	(79,832)
			Allocations to:			
-	33,936	33,936	Income and Expenditure Account	-	32,721	32,721
-	11	11	Trading Activities' Revenue Account	-	11	11
(7,231)	(167,243)	(174,474)	Balance as at 31 March	(10,728)	(210,846)	(221,574)

36. Movement in reserves

The Council keeps a number of reserves on the Balance Sheet. Some are held for statutory reasons, some are needed to comply with proper accounting practice and others have been established to earmark resources for future spending.

Notes to the Accounts

The movements in these reserves during 2007/08 are summarised in the following table, which includes references to other notes that provide further information on these reserves.

Reserves	Balance at 1 April 2007	Balance at 31 March 2008	Net movement in year	Purpose of Reserve	Further details on movement in notes:
	£000	£000	£000		
Revaluation Reserve	-	(173,543)	(173,543)	Store of gains on revaluation of fixed assets not yet realised through sales.	37
Capital Adjustment Account	(1,811,780)	(1,798,796)	12,984	Store of capital resources set aside to meet past expenditure.	38
Financial Instruments Adjustment Account	-	4,722	4,722	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.	40
Usable Capital Receipts	(1,938)	(13,883)	(11,945)	Proceeds of fixed asset sales available to meet future capital investment.	39
Deferred Capital Receipts	(18,517)	(18,517)	-	Capital income still to be received from the sale of fixed assets, because deferred payment has been agreed.	39
Pensions Reserve	348,215	564,039	215,824	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.	13
General Fund	(30,199)	(38,927)	(8,728)	Resources available to meet future running costs of services.	
Earmarked revenue reserves	(176,622)	(196,541)	(19,919)	Reserves set aside for policy purposes to meet specific costs in the future.	17
	(1,690,841)	(1,671,446)	19,395		

37. Revaluation Reserve

The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007 required the Council to establish, on 1 April 2007, a Revaluation Reserve. The reserve records the gains and losses arising on the revaluation of the Council's fixed assets from that date.

Previously, such gains and losses were taken to the Fixed Asset Restatement Account. The balance on the Fixed Asset Restatement Account as at 31 March 2007 was transferred to the Capital Adjustment Account on 1 April 2007 in accordance with the SORP 2007.

Notes to the Accounts

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

	2007/08 £000
Balance as at 1 April	-
Revaluation of fixed assets (increases)	(184,356)
Revaluation of fixed assets (subsequent decreases)	-
Depreciation on revaluation gains	813
Revaluation gains outstanding upon disposal of fixed asset	10,000
Balance as at 31 March	(173,543)

38. Capital Adjustment Account

The SORP required authorities to create a Capital Adjustment Account on 1 April 2007. The balance as at 1 April 2007 is the amalgamation of the Fixed Asset Restatement Account and the Capital Financing Account as at that date. Consequently, the opening balance consists of:

- The consolidation of gains arising from the revaluation of fixed assets (as previously taken to the Fixed Asset Restatement Account); and
- Revenue funds set aside as a provision to repay external loans and the financing of capital payments from capital receipts and revenue reserves (formerly presented in the Capital Financing Account).

Notes to the Accounts

The following table provides an analysis of the movement in the capital adjustment account.

	2007/08		
	£000	£000	£000
Transfers from:			
Fixed Asset Restatement Account			(1,468,037)
Capital Financing Account			(343,743)
Balance as at 1 April 2007			<u>(1,811,780)</u>
Revaluation of fixed assets			
Current value depreciation/impairment to historic cost	(813)		
Revaluation gains outstanding for assets upon disposal	<u>(10,000)</u>		
		(10,813)	
Cost / value of assets disposed of during the year		28,342	
Capital receipts applied		(15,638)	
Revenue resources set aside			
Reserves applied	(29,568)		
Revenue provision for repayment of debt	(35,606)		
Depreciation	34,683		
Impairment of fixed assets	28,922		
Deferred charges	45,186		
Deferred consideration	<u>208</u>		
		43,825	
Deferred capital grants			
Government grant deferred amortisation		<u>(32,732)</u>	
Total movement			12,984
Balance as at 31 March 2008			<u>(1,798,796)</u>

39. Capital Receipts

39.1 Usable Capital Receipts Reserve

This reserve contains the proceeds from the sale of fixed assets which have not yet been used to finance capital expenditure. The movements in the Usable Capital Receipts Reserve are summarised in the following table.

2006/07 £000		2007/08 £000
(11,361)	Balance as at 1 April	(1,938)
	Disposal proceeds	
(45,655)	Receipts	(27,583)
55,078	Applied to finance capital expenditure	15,638
<u>(1,938)</u>	Balance as at 31 March	<u>(13,883)</u>

Notes to the Accounts

39.2 Deferred Capital Receipts

This balance represents the level of capital income still to be received from the sale of fixed assets, because deferred payment has been agreed.

2006/07 £000	2007/08 £000
- Balance as at 1 April	(18,517)
(18,517) Amounts arising	-
(18,517) Balance as at 31 March	(18,517)

The outstanding capital receipts will be received in 2008/09.

40. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account is a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.

The following table provides a summary of the movements in this account:

	2007/08		
	Premiums £000	Discounts £000	Total £000
Balance as at 1 April	-	-	-
Write out of premiums / discounts previously recognised on the Balance Sheet	3,684	(807)	2,877
Amortisation of premiums / discounts to the General Fund	(128)	19	(109)
Transfer from the General Fund for the difference between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	5,236	(3,282)	1,954
Balance as at 31 March	8,792	(4,070)	4,722

Notes to the Accounts

41. Interest in companies and other entities

The Council has involvement with a number of companies, as follows:

41.1 Essex Development and Regeneration Agency (ExDRA)

The Council established the Essex Development and Regeneration Agency (ExDRA) on 1 October 2004 to promote urban and rural regeneration in areas of social and economic deprivation, and to promote economic, social and environmental well being in Essex.

The Council is currently the only member of ExDRA, which is a private company limited by guarantee, with no share capital. The Council's liability is limited to the amount that it has agreed to contribute to the Company's assets if it is wound up (ie. to a maximum of £1). Other local councils may ultimately also become guarantors on a similar basis.

The income and property of the Company can only be applied towards the promotion of its objectives. No proportion of the Company's income or assets can be paid or transferred, directly or indirectly, by way of dividends or bonuses, to the Council (or any other members of the company).

If, upon the winding up, or dissolution of the company, there remains any property, this will be given or transferred to some other institution having objectives similar to the company. The property will not be paid or distributed to the Council (or any other members of the company).

ExDRA is primarily funded by the Council and the East of England Development Agency.

A legal contract sets out the relationship between the Council and ExDRA. The contract operates in conjunction with an annual commissioning agreement framework that sets out the Council's requirements of ExDRA together with performance measures and targets.

In addition to commissioned activities, ExDRA also manages certain projects on behalf of the Council, including management of its Enterprise Centres and administration of various grant funded schemes. The Council is the administering body for these grant funded schemes.

The Council provided indemnity to ExDRA until 31 March 2007, to ameliorate against potential decreases in the level of funding provided by the Council. A new contract makes a reducing provision to cover part of the redundancy costs of former ECC staff. In addition, the Council has provided an undertaking to underwrite the property lease for ExDRA's office accommodation until 31 March 2013. The annual lease cost amounts to **£111,000**.

Notes to the Accounts

41.2 ExWaste

The Council is the sole shareholder of ExWaste, a local authority waste disposal company. The company is no longer trading, and the only financial transactions in its accounts are interest and audit fees. Consideration is being given to making an application for formal dormancy of the company.

41.3 Essex Careers and Business Partnership (ECBP)

The Council held 51% of the share capital of ECBP, whose principal business was to deliver a universal careers service to young people aged 13 to 19, under contract from Essex, Southend and Thurrock Connexions Ltd. ECBP was placed into liquidation on 23 March 2004.

Notes to the Accounts

42. Analysis of government grants

42.1 Revenue grants

The following table provides an analysis of the revenue government grants received by the Council, as presented in the Cash Flow Statement on page 21.

2006/07 £000	Revenue grants	2007/08 £000
694,378	Dedicated schools grant	733,229
60,285	Learning and Skills Council Funding	62,952
-	Schools Development grant	41,453
30,774	School standard grant	38,928
30,576	Supporting People	30,566
75,058	Education Standards Fund/class size grant	25,254
15,839	PFI grant	15,205
13,587	Access and Systems Capacity	13,955
12,030	Early years and childcare	12,869
2,572	Local Area Agreement pooled funds	12,092
5,843	Preserved Rights	5,426
4,253	Carers' Initiative	4,870
3,595	Speed camera hypothecation	3,617
2,547	Delayed Discharge	2,589
2,504	Children's Fund	2,481
2,239	National Training Strategy	2,253
2,875	Rural bus subsidy	1,959
1,551	Mental Health - CAMHS	1,582
776	Preventative technology - older people	1,302
2,241	Sure Start	1,137
1,038	Human Resources Development Strategy	1,044
2,490	European Social Fund	1,024
1,015	Young persons substance misuse	886
2,132	Asylum seekers	880
1,035	Dept of Environment - Food & Rural Affairs	19
2,080	Pump priming	-
1,801	Landfill Allowance	-
180	Teachers pay reform	-
2,785	Mental illness	-
5,394	Other	4,943
<u>983,473</u>	Total revenue grants	<u>1,022,515</u>

42.2 Capital grants

The following table provides an analysis of the capital government grants received by the Council, as presented in the Cash Flow Statement on page 21.

Notes to the Accounts

2006/07 £000	Capital grants	2007/08 £000
19,658	Education Standards Fund	37,560
-	Dept for Transport Highways grant	13,720
2,606	Sure Start	7,318
534	Great Notley Bypass	4,149
1,346	Local Area Agreement Safer and Stronger Communities	2,753
-	Care Home improvement grant	1,365
1,044	Information Management	839
614	Youth Capital Fund	606
-	First Avenue Harlow	520
147	Speed camera hypothecation	355
-	Fryerns and Craylands regeneration	297
2,893	Education Other Grants	191
3,763	PSA Reward Grant	-
2,959	Gypsy and Traveller sites grant	-
1,557	Dept for Env, Food and Rural Affairs - Waste Grant	-
825	Disability Discrimination Act	-
240	Other	1,366
<u>38,186</u>	Total capital grants	<u>71,039</u>

43. Reconciliation of revenue activities net cash flow

The following table reconciles the net surplus / deficit on the Income and Expenditure Account (as set out on page 18) with the revenue activities net cash flow shown in the Cash Flow Statement (as set out on page 21).

2006/07 £000		2007/08	
		£000	£000
5,817	Net (surplus) / deficit on Income and Expenditure Account		(8,984)
	Non cash transactions		
33,947	Government grants deferred amortisation	32,732	
(9,459)	Net changes made for retirement benefits	(5,966)	
(5,471)	Landfill allowances	(2,122)	
(4,290)	Loss on disposal fixed assets	(759)	
(208)	Capital Financing Account - deferred consideration	(207)	
(1,042)	Contribution to trading activities reserves	(2,875)	
(8,337)	Increase in provisions	(11,041)	
(28,694)	Depreciation and impairment of fixed and intangible assets	(60,383)	
(45,921)	Write down of deferred charges financed from capital resources	(45,186)	
<u>(69,475)</u>			(95,807)
	Accruals		
(57,558)	Increase in creditors	(10,024)	
(3,359)	Increase / (decrease) in debtors	(9,061)	
(15)	Decrease in long term debtors	397	
(1)	(Decrease) / increase in stocks and work in progress	(20)	
<u>(60,933)</u>			(18,708)
	Other transactions		
11,002	Use of provisions	5,075	
1,528	Contribution by other local authorities to the repayment of debt	15,726	
<u>12,530</u>			20,801
(5,946)	Servicing of finance		(2,929)
<u>(118,007)</u>	Revenue activities net cash flow		<u>(105,627)</u>

Notes to the Accounts

44. Movement in net debt

The following table reconciles the movement in cash to the movement in net debt.

	Balance 1 April 2007 £000	Balance 31 March 2008 £000	2007/08 Cash Flow £000
Cash in hand	13,817	21,414	7,597
Borrowing			
Due after one year	(309,066)	(361,758)	(52,692)
Due within one year	(28,316)	(5,340)	22,976
Finance lease obligations	(543)	(300)	243
	<u>(337,925)</u>	<u>(367,398)</u>	<u>(29,473)</u>
Investments			
Short term investments	192,333	172,429	(19,904)
Long term investments	-	82,094	82,094
	<u>192,333</u>	<u>254,523</u>	<u>62,190</u>
Total net debt	<u>(131,775)</u>	<u>(91,461)</u>	<u>40,314</u>

45. Financing and management of liquid resources

The following table provides a reconciliation of the items shown within the Financing and Management of liquid resources sections of the Cash Flow Statement (as set out on page 21) to the related items in the opening and closing balance sheets.

2006/07 Net total £000	2007/08					Net total £000
	Investments		Borrowing		Finance leases	
	Long term £000	Short term £000	Long term £000	Short term £000	£000	
(180,850) Balance at 1 April	-	192,333	(309,066)	(28,316)	(543)	(145,592)
Management of liquid resources						
5,933 Inc / (dec) in short term deposits	-	(19,904)	-	-	-	(19,904)
- Inc / (dec) in long term deposits	82,094	-	-	-	-	82,094
5,933	<u>82,094</u>	<u>(19,904)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,190</u>
Financing						
183,867 Repayment of amounts borrowed						
- Repayment of principal	-	-	127,317	15,244	-	142,561
- Capital element of finance leases	-	-	-	-	243	243
(153,999) New loans raised						
- New loans raised	-	-	(166,000)	-	-	(166,000)
- Interest payable	-	-	-	(4,273)	-	(4,273)
- Modification of new loans	-	-	(2,004)	-	-	(2,004)
- Recategorisation of long term loans repayable in less than one year	-	-	(12,005)	12,005	-	-
29,868	<u>-</u>	<u>-</u>	<u>(52,692)</u>	<u>22,976</u>	<u>243</u>	<u>(29,473)</u>
(145,049) Balance at 31 March	<u>82,094</u>	<u>172,429</u>	<u>(361,758)</u>	<u>(5,340)</u>	<u>(300)</u>	<u>(112,875)</u>

The Council includes all short term borrowings and investments (those that must be repaid or relinquished within one year of their original contract date) within liquid resources.

Occasionally, long term loans are refinanced, in order to reduce the Council's interest burden. In certain circumstances, the original loans are deemed to have been

Notes to the Accounts

modified; the carrying value of the replacement loans are therefore adjusted by the premiums or discounts arising as a result of the refinancing.

46. Trust Funds

At 31 March 2008 the Council acted as sole trustee for 2 trust funds and as administrator for 9 other trust funds (31 March 2007: 2 and 9 respectively). The funds do not represent assets of the Council and have not been incorporated into the Council's Balance Sheet. Details of the trust funds administered by the Council are provided in the following table.

	Balance 1 April 2007 £000	2007/08 transactions		Balance 31 March 2008 £000
		Income £000	Expenditure £000	
Sole Trustee Funds				
F W Powell scholarship	28	1	-	29
Kendrick trust	26	1	-	27
	54	2	-	56
Administrator Funds				
Great and Little Leighs educational trust	113	10	(14)	109
Paslow common foundation	76	5	(1)	80
Essex awards (incl. former Florence Knapton and other funds)	84	4	(2)	86
J H Burrows scholarship	19	1	-	20
Other	16	2	-	18
	308	22	(17)	313
Total Trust Funds	362	24	(17)	369

Note: The individual funds have not been subject to audit.

47. Charitable Trust Funds

The Council act as sole trustee for two charitable trust funds:

- **Saffron Walden Public Library** (also known a Saffron Walden Town Library). This charity was created in 1967 and the Council is the sole trustee. The charity's purpose is to maintain / improve the library and / or provide library facilities additional to those normally provided by the Council under the Public Libraries and Museums Act 1964.
- The **Writtle Library and Reading Room**. This charity was created in 1967 and the Council is the sole trustee. The charity's purposes are to advance the education of local inhabitants through classes and / or by means of a library or reading room and other educational facilities for children and young persons.

The Council provides library services to the public within the buildings owned by the charitable trusts. In neither case, do the charities' funds represent assets of the Council and they have not been included in the Council's Balance Sheet.

Notes to the Accounts

Details of the charitable trust funds are provided in the following table.

2006/07			2007/08	
Saffron Walden Library	Writtle Library & reading room		Saffron Walden Library	Writtle Library & reading room
£000	£000		£000	£000
203	21	Expenditure	55	6
(195)	(21)	Income	(51)	(6)
8	-	Total	4	-
1,821	326	Assets	1,647	314
(12)	-	Liabilities	(10)	-
1,809	326	Total	1,637	314

Statement of Accounting Policies

1. Introduction

The purpose of the Statement of Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the Council's accounts.

The accounting policies adopted, that are material in the context of the Council's 2007/08 financial statements, are set out within the following paragraphs and are listed below for ease of reference.

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Statement of Accounting Policies

2. General principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year, and its position as at 31 March 2008. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007 (the '2007 SORP'). The accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible fixed assets.

3. Accruals of income and expenditure

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

- Fees, charges and other receipts are accounted for as income at the date the Council provides the relevant goods or services.
- Goods and services are accounted for as expenditure when they are received or consumed.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised, but the cash has not been received or paid, a debtor or creditor for the relevant amount is recognised in the Balance Sheet.
- Where it is doubtful that debts will be settled, the balance of debtors is reduced and a charge is made to revenue for the income that might not be recoverable.

4. Provisions

Provisions are made when an event has taken place that gives the Council an obligation that requires settlement by a transfer of economic benefits, but the timing of the transfer is uncertain.

The Council establishes provisions by charging the appropriate Service Revenue Account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged directly to the relevant provision in the Balance Sheet.

The provisions are reviewed annually to ensure that the amounts held on the Balance Sheet represent the best estimates of the expenditure required to settle the obligation.

Statement of Accounting Policies

Where a lower settlement is made than anticipated, the excess provision is reversed and credited back to the relevant service revenue account.

5. Reserves

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

When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service revenue account in that year, to score against the Net Cost of Services in the Income and Expenditure Account. An amount is then appropriated from the Reserve, back into the Statement of Movement on the General Fund Balance, so that there is no net charge against council tax for the expenditure.



6. Government grants and contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grant and third party contributions are recognised as income at the date the Council satisfies the conditions of entitlement to the grant / contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant has been given has been incurred.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate.

Grants to cover general expenditure are credited to the Income and Expenditure Account after Net Operating Expenditure.

7. Retirement benefits

7.1 Pension schemes

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pension Scheme (LGPS), administered by the Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

Statement of Accounting Policies

7.2 Teachers' Pension Scheme

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 if it were a defined contributions 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 to Teachers' pensions in the year.

7.3 Local Government Pension Scheme (LGPS)

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

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method. The projected unit method assesses the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **6.1%** (2006/07: 5.4%). This discount rate is based upon the indicative rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value:
 - **Quoted securities** – mid market value
 - **Unquoted securities** – professional estimate
 - **Unitised securities** – average of the bid and offer rates
 - **Property** – Market value
- The changes in the pension assets / liabilities are analysed into the following components:
 - **Current service cost** – the increase in liabilities as a result of service earned during the year is allocated in the Income and Expenditure Account to the revenue accounts of the services for which the employees work.
 - **Past service cost** - the increase in liabilities arising from current year decision, whose effect relates to years of service earned in earlier years,



Statement of Accounting Policies

is debited to the Net Cost of Services, within the Income and Expenditure Account, as part of Non Distributed Costs.

- **Interest cost** - the expected increase in the present value of liabilities during the year, as they move one year closer to being paid, is debited to Net Operating Expenditure within the Income and Expenditure Account.
- **Expected return on assets** - the annual investment return on the LGPS's assets attributable to the Council is based on an average of the expected long term return, and is credited to Net Operating Expenditure within the Income and Expenditure Account.
- **Gains/losses on settlements and curtailments** - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are debited to the Net Cost of Services, within the Income and Expenditure Account, as part of Non Distributed Costs.
- **Actuarial gains and losses** - changes in the net pension's liability, because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, are debited to the Statement of Total Recognised Gains and Losses.
- **Contributions paid to the LGPS** – cash paid as employer's contributions to the Pension Fund.
- Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund each year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional entries referred to above, and replace them with the amount payable to the Fund for the year.
- The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Value Added Tax

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

Statement of Accounting Policies

9. Overheads and support services

The costs of overheads and support services are recharged to those that benefit from the supply or service, in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007. The full cost of overhead and support services are shared between services on agreed basis of allocation, with the exception of:

- Corporate and democratic core costs, which relate to the Council's status as a multi-functional, democratic organisation.
- Non distributed costs, which represent the costs of discretionary benefits awarded to employees retiring early.

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

10. Fixed assets

10.1 Asset categories

Fixed assets include the provision, enhancement or replacement of the following permanent assets:

Category	Asset type
Intangible fixed assets	<ul style="list-style-type: none">▪ IT software
Tangible fixed assets – operational	<ul style="list-style-type: none">▪ Land and buildings▪ Vehicles, plant and equipment (<i>including IT hardware</i>)▪ Infrastructure (<i>roads and highways</i>)▪ Community assets (<i>including parks and historic buildings</i>)
Tangible fixed assets - Non operational	<ul style="list-style-type: none">▪ Assets under construction▪ Surplus assets held pending disposal

Intangible assets do not have physical substance, but are identifiable and controlled by the Council for more than one financial year.

Tangible fixed assets have a physical substance and are held for the provision of services or for administrative purposes on a continuing basis.

Statement of Accounting Policies

10.2 Recognition of fixed assets

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts, provided that it yields benefits to the Council, and the services that it provides, for more than one financial year.

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

- General limit - **£10,000**
- Trading activities - **£6,000**
- School projects funded or supported by Formula Capital Grants - **£2,000**

No de-minimis limit is applied in respect of land purchases.



Expenditure that secures, but does not extend, the previously assessed standards of performance of assets is charged to revenue as it is incurred. This includes expenditure on furniture and fittings.

Expenditure that extends the previously assessed standards of performance of assets is only taken to the Balance Sheet where it is considered to have a material effect on the value of the asset. Otherwise it is written off to the Revaluation Reserve to the extent that there are accumulated gains within the reserve in respect of that specific asset. Any remaining balance is charged to the relevant service's revenue account before being charged to the Capital Adjustment Account via the Statement of Movement on the General Fund Balance. See section 10.6 for further details.

10.3 Measurement and depreciation

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing assets into working condition for its intended use. Assets are then carried in the Balance Sheet using one of the following bases:

- Net current replacement cost (assessed as existing use value, depreciated replacement cost or market value)
- Net realisable value
- Depreciated historic cost

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years.

Statement of Accounting Policies

Increases in valuations are matched by credits to the Revaluation Reserve to recognised unrealised gains.

Depreciation is provided for on all assets with a determinable finite life, by allocating the value of the assets in the Balance Sheet over the periods expected to benefit from their use.

The bases upon which fixed assets are measured and depreciated are set out in the following table.

	Measurement bases	Depreciation bases
IT hardware and software	Historic cost value	Hardware and software associated with projects costing in excess of £1m are amortised on a straight line basis over 5 years. Hardware and software associated with smaller projects are fully amortised in the year that the capital expenditure arises.
Land and buildings	Current use value (subject of 5 yearly revaluation cycle)	Buildings are depreciated over 60 years, on a straight-line basis. Land is not depreciated.
Community assets	Historic cost value	Depreciated over 60 years, on a straight-line basis.
Trading activities' vehicles and equipment	Current use value (re-valued annually)	Depreciated on straight-line basis, over expected lifetime ranging between 4 and 31 years.
Other vehicles and equipment	Historic cost value	Depreciated on a straight-line, over an expected lifetime ranging between 5 and 20 years.
Roads and other infrastructure	Historic cost value	New roads are depreciated over 30 years and other infrastructure assets over 35 years. Depreciation is provided on a straight-line basis.
Surplus assets held pending disposal	Net realisable value	Depreciation is determined according to the policies outlined above.
Assets under construction	Held at cost, until they reach practical completion.	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

Statement of Accounting Policies

10.4 Impairment of fixed assets

The values of each category of assets, including material individual assets that are not being depreciated, are reviewed at the end of each financial year for evidence of reductions in value.

Where a permanent reduction in the value of the assets is identified, due to consumption of economic benefits, the impairment loss is recognised, within the Income and Expenditure Account, against the relevant service's revenue account.

Where impairment results from a general fall in prices, or where the cause cannot be clearly determined, the loss is treated as a downward revaluation that is charged to the Revaluation Reserve to the extent that there are accumulated gains within the reserve in respect of that specific asset. Any remaining balance is charged to the relevant service's revenue account before being charged to the Capital Adjustment Account via the Statement of Movement on the General Fund Balance. See section 10.6 for further details.

10.5 Capital grants and contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

10.6 Basis of charges to Revenue for fixed assets

Service revenue accounts, support services and trading activities are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance,

Statement of Accounting Policies

by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

10.7 Disposals

When an asset is disposed of or decommissioned:

- The value of the asset in the Balance Sheet is written off to the Income and Expenditure Account.
- Receipts from disposals are credited to the Income and Expenditure Account.

The net of these two entries represents part of the gain or loss on disposal.

The receipts are then appropriated from the Statement of Movement on the General Fund Balance to the Usable Capital Receipts Reserve (see note 39 to the accounts, on page 66). The reserve is then applied to finance future capital spending.

The value of asset disposals is not a charge against Council Tax, 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 Statement of Movement on the General Fund Balance. Only the costs of disposal are charged against the General Fund Balance.

10.8 Deferred charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but which does not result in the creation of tangible assets. The Council classifies the following items of capital expenditure as deferred charges:

- Improvement grants and advances to finance capital investments by other parties, where there is no expectation of repayment.
- Expenditure which is capitalised by direction of the Secretary of State.
- Capital expenditure related to Foundation Schools.
- Capital investment in information technology, where the costs associated with individual projects are less than **£1.0m** in value or where the costs relate to the Council's IT development staff.

Deferred charges are written off as expenditure to the relevant service revenue account in the year in which the expenditure arises. Where the Council has met the costs of deferred charges from capital resources, a transfer is made from the Capital Adjustment Account to the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

Statement of Accounting Policies

10.9 Foundation and voluntary aided schools

In accordance with the Council's interpretation of the accounting guidance set out within LAAP bulletin 46 issued by CIPFA, fixed assets and long term liabilities remain vested in the governing bodies of individual foundation schools. Therefore, values and amounts have not been incorporated into the Council's Balance Sheet.

11. Private Finance Initiative and Public Private Partnership schemes

11.1 Schemes

Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes involve operators designing, building, financing, and ultimately operating properties or roads on behalf of the Council. The Council has entered into the following PFI and PPP contracts to date:

Scheme	Scheme Type	Year of commencement
A130 road scheme	PFI	1999/2000
Debden Park School	PFI	1999/2000
Tendring Primary Schools	PPP	2001/2002
Clacton Primary Schools	PFI	2003/2004

11.2 Payments for services provided

Payments made against the contracts for services provided under these schemes are charged to the Net Cost of Services within the Income and Expenditure Account on an accruals basis.

Dowry payments, made to the PFI contractors to secure future reduced annual payments over the life of the contracts, were accounted for as pre-payments for services receivable. These are being written down to the Net Cost of Services within the Income and Expenditure Account over the lives of the PFI contracts to reflect their real cost to the Council.

11.3 Government grants

The Government provides specific grants to the Council in support of the PFI schemes. These grants are credited to the Net Cost of Services within the Income and Expenditure Account, to partially offset the payments the Council makes under the contracts. The annual PFI grants receivable during the early years of the contracts are in excess of the amounts that will be received in later years. In order to equalise the impact of these grants upon the Income and Expenditure Account over the life of the contracts, the Council currently sets aside a proportion of these grants, by an appropriation from the Statement of Movement on the General Fund Balance to earmarked revenue reserves. These

Statement of Accounting Policies

earmarked reserves will be drawn upon to compensate for the diminishing revenue grants during the later years of the contracts.

11.4 Properties used to provide contracted services

Where properties are needed to fulfil the PFI / PPP contracts for services, the Council evaluates whether it has an economic interest in the properties in accordance with Financial Reporting Standard (FRS) 5 (Reporting the substance of transactions), and Application Note F (Private Finance Initiative and similar contracts). Application Note F, issued by the Accounting Standards Board, clarifies how the principles and requirements of FRS 5 should apply to transactions conducted under the UK Government's Private Finance Initiative.



Where the Council has leased assets to the PFI / PPP contractors, these assets are recognised within the Council's Balance Sheet at their residual value to the Council at the end of the lease contracts.

11.5 Deferred consideration

The Council receives consideration for assets leased to the PFI / PPP operators through an implicit or explicit abatement of the contract payments. The value of the abatement of the contract is recorded on the Council's Balance Sheet as a deferred consideration. The deferred consideration is being written down to the Net Cost of Services within the Income and Expenditure Account over the period of the reduced PFI / PPP payments, in order that the Service revenue account reflects the full cost of the contracts, and not just that element that is paid to the contractors each year. As the charge from the deferred consideration account is a notional figure, an appropriation is made to the Statement of Movement on the General Fund Balance from the Capital Adjustment Account to remove the impact of this on the Council's general fund balance.

12. Leases

12.1 Finance leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council.

Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the asset (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable).
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Statement of Accounting Policies

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

12.2 Operating leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Council also leases properties to third parties. The rental income is taken directly into the Income and Expenditure Account, within the net cost of services, as it becomes due.



13. Repurchase of borrowing

Gains or losses on the repurchase or early settlement of borrowing are usually credited or debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio, with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the Balance Sheet and are then written down to revenue on a straight line basis over the term of the replacement loans.

14. Investments

Investments are usually carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

15. Stocks and work in progress

Stock is included in the Balance Sheet at the lower of cost and net realisable value, with the exception of stock held by the Essex Transport and Reprographics trading activities, which is held at replacement cost.

Statement of Accounting Policies

16. Interest in companies and other entities

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of companies, as explained within note 41 to the Accounts on page 68. The Council has reviewed the nature of its involvement with these companies and is satisfied that the requirement to produce Group Accounts does not currently apply.

17. Landfill Allowances Trading Scheme

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) without charge or purchased from another Waste Disposal Authority (WDA), are recognised as current assets on the Council's Balance Sheet. They are initially measured at their fair value, which is market value for allowances allocated by DEFRA and cost for purchased allowances. Allowances are subsequently measured at the lower of initial recognition value and net realisable value.

The fair value of the landfill allowances allocated by DEFRA without charge is accounted for as a government grant. Accordingly, the grant is initially recognised as deferred income in the Balance Sheet, and subsequently recognised as income to the Income and Expenditure Account.

As biodegradable municipal waste is sent to landfill a liability is incurred for the obligation to hold allowances equal to the landfill usage. This liability is recognised as a provision on the Council's Balance Sheet. The provision is established by charging the Cultural, Environmental and Planning service, within the Income and Expenditure Account, with the amount of the liability.



Where income exceeds expenditure, because less biodegradable municipal waste has been sent to landfill than the allocation of allowances would cover, the Council appropriates the excess income into an earmarked revenue reserve to meet a future year's landfill usage liability.

18. Financial Instruments

The SORP 2007 requires the Council to account for financial instruments in accordance with UK Generally Accepted Accounting Practice, as modified by the SORP 2007 and Capital Financing Regulations, for the first time in 2007/08.

Statement of Accounting Policies

18.1 Recognition

Financial Instruments are recognised when the Council becomes a party to the contractual provisions of the instrument. For example, the recognition of a financial asset (e.g. investment) is when the Council becomes committed to a date to buy or sell the asset. Debtors and creditors are recognised once the related goods or services have been delivered or rendered.

In accordance with the SORP 2007 some financial instruments are not disclosed within the note to the accounts on financial instruments because they are covered by disclosures made elsewhere within the accounts. These are:

- Rights and obligations under leases – see note 12 on page 86 ; and
- The Council’s rights and obligations under pension schemes – see note 7 on page 77.

The Council discloses all financial instruments that are considered material to the Council’s financial position and performance in the year.

18.2 De-recognition

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

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

18.3 Measurement

Financial instruments are initially measured at fair value less the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement depends on the classification of the instrument as detailed by Financial Reporting Standard 26: Financial Instruments – Measurement and permitted by the SORP 2007:

Classification	Description	Measurement base
Financial liabilities: <ul style="list-style-type: none">▪ Amortised cost	All financial liabilities not held for trading or are derivatives, e.g. operational creditors and borrowings.	Amortised cost

Statement of Accounting Policies

Classification	Description	Measurement base
Financial liabilities: <ul style="list-style-type: none"> Fair value through profit and loss 	Liabilities held for trading or derivatives with a negative value. Not expected to be held.	Fair value
Financial Assets: <ul style="list-style-type: none"> Loans and receivables 	Financial assets that have fixed or determinate payments that are not quoted in an active market, e.g. operational debtors and bank deposits.	Amortised cost
<ul style="list-style-type: none"> Fair value through profit and loss 	Assets that are held for trading and derivatives with a positive value.	Fair value
<ul style="list-style-type: none"> Available-for-sale 	All other financial assets not included above.	Fair value

18.4 Financial instruments prior to 1 April 2007

The SORP 2007 specifically requires authorities not to re-state the 2006/07 accounts in respect of this change in accounting policy. Instead, financial instruments held at 31 March 2007 have been adjusted in accordance with the new accounting policy as at 1 April 2007.



18.5 Basis for charging to revenue

The impact on the Income and Expenditure account depends upon the type of financial instrument:

Classification	Measurement base	Impact on Income and Expenditure account
Financial liabilities <ul style="list-style-type: none"> Amortised cost 	Amortised cost	The interest payable using the effective interest rate is charged.

Statement of Accounting Policies

Classification	Measurement base	Impact on Income and Expenditure account
Financial liabilities <ul style="list-style-type: none"> ▪ Fair value through profit and loss 	Fair value	Gains and losses on the fair value of the liability are charged as they arise.
Financial Assets <ul style="list-style-type: none"> ▪ Loans and receivables 	Amortised cost	The interest receivable using the effective interest rate is charged together with any impairment losses and any gain or loss on de-recognition.
<ul style="list-style-type: none"> ▪ Fair value through profit and loss 	Fair value	Gains and losses on the fair value of the liability are charged as they arise.
<ul style="list-style-type: none"> ▪ Available-for-sale 	Fair value	<p>The interest receivable using the effective interest rate is charged to the Income and Expenditure Account together with any gain or loss on de-recognition.</p> <p>In addition, gains and losses on the fair value are taken to the STRGL as they arise.</p>

As a result of the different measurement bases prescribed above, the expenditure or income taken to the Council's Income and Expenditure account is different to the actual expenditure or income payable/receivable. The SORP 2007 and Capital Finance Regulations allow the Council to reverse the impact on the General Fund Balance within the Statement of Total Movement on the General Fund Balance. This is achieved by removing the original transactions and replacing them with the actual amount receivable/payable. The difference is posted to the Financial Instruments Adjustment Account.

Pension Fund Accounts

Introduction

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

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Pension Fund Accounts

Pension Fund Accounts

Fund account for the year ended 31 March 2008

2006/07 £000	Note		2007/08 £000	£000
		Contributions and Benefits		
		Income		
		Contributions receivable		
(40,121)	5	Employees' contributions	(41,374)	
(130,082)	5	Employers' contributions	(148,846)	
(14,620)	5	Transfers from other schemes	(19,548)	
(149)		Other income	(198)	
<u>(184,972)</u>		Total income		<u>(209,966)</u>
		Expenditure		
		Benefits payable		
99,168	5	Pensions	107,856	
26,266		Commutation of pensions and lump sums	30,323	
1,995		Death benefits	1,705	
		Payments to and on account of Leavers		
32		Refunds of contributions	7	
23		Contributions equivalent premium	3	
10,661	5	Transfers to other schemes	14,499	
2,285	7	Administration expenses	2,267	
<u>140,430</u>		Total expenditure		<u>156,660</u>
(44,542)		Net additions from dealings with members		<u>(53,306)</u>
		Returns on investments		
(60,857)	6	Investment income	(69,130)	
(155,816)	8	Change in market value of investments	220,614	
4,500		Taxation	4,006	
10,596		Investment management expenses	13,327	
<u>(201,577)</u>		Net returns on investments		<u>168,817</u>
(246,119)		Net (increase)/decrease in the Fund during the year		<u>115,511</u>
(2,796,760)		Net assets as at 1 April		<u>(3,042,879)</u>
<u>(3,042,879)</u>		Net assets as at 31 March		<u>(2,927,368)</u>

Pension Fund Accounts

Pension Fund Accounts

Net assets statement as at 31 March 2008

31 March 2007 £000	Note		31 March 2008 £000
	8	Investments at market value	
298,246	↓	Fixed interest securities	256,440
1,890,889		Equities	1,713,862
151,398		Index linked securities	157,128
232,929		Property unit trusts	187,194
202,768		Managed funds	435,523
148,070		Property	119,995
79,179		Cash/deposits	11,200
6,609		Other investments	9,829
<hr/> 3,010,088			<hr/> 2,891,171
	10	Current assets and liabilities	
24,949	↓	Cash invested with the County Council	23,888
13,190		Debtors and payments in advance	16,302
<hr/> 3,048,227			<hr/> 2,931,361
(5,348)	↓	Creditors and receipts in advance	(3,993)
<hr/> 3,042,879			<hr/> 2,927,368

Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

The Essex Pension Fund (the Fund) is governed by the Local Government Pension Scheme Regulations 1997, as amended. The Fund provides pensions and other benefits to employees of the County Council, district, borough and unitary councils and other scheduled and admitted bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity and shareholder activism through the use of limited partnerships. The Investment Steering Committee oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks.

2. Basis of preparation

The Pension Fund Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA, and the main recommendations of the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes' (Revised November 2002).

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies can be obtained by contacting the Council's Investments and Insurance team or alternatively can be found on the Essex County Council website.

The Pension Fund Statement of Accounts summarises the transactions of the scheme and the net assets of the Fund. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year.

3. Actuarial valuation

The most recent actuarial valuation of the Pension Fund was at 31 March 2007, when the market value of the assets was **£3,043m**. The assets of the Fund were valued on the market value approach and showed that the assets held were sufficient to cover **79.6%** of the Fund's liabilities at that time. The valuation was carried out using the projected unit method. Contribution rates are set after the valuation has been completed and appropriate deficit recovery periods set.

Pension Fund Accounts

The main economic assumptions used in the actuarial valuation were:

	Past service liabilities % per annum	Future service liabilities % per annum
Rate of return on investments		
Pre retirement	6.90%	6.50%
Post retirement	5.40%	6.50%
Rate of pay increases	4.60%	4.25%
Rate of increase to pensions in payment	3.10%	2.75%

The actuary has set a common contribution rate of **12.7%** of pensionable pay. This rate is varied for each participating body depending on their individual circumstances. In addition, a past service deficiency contribution of **7.0%** has been set to enable the Fund to reach 100% funding in 20 years from the date of the last actuarial valuation. This rate and recovery period are also varied for individual employers, to reflect their individual circumstances. The report of the actuary can be found in the Pension Fund Annual Report and Accounts.

An interim valuation of the Fund as at 31 March 2008 has been commissioned.

4. Accounting policies

4.1 Accounting convention

The Pension Fund Statement of Accounts has been prepared on an accruals basis, except for transfers to and from the scheme which are accounted for on a cash basis.

4.2 Investments

In the majority of cases, equity investments are valued at the last traded price recorded on the Stock Exchange Electronic Trading Service or mid market price at 31 March 2008.

For private equity limited partnerships, there is usually a time delay in receiving information from the private equity fund managers. The valuations shown in the net asset statement for these investments are the latest valuations provided to the County Council. In general these are valuations at 31 December 2007 and are compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. To estimate the valuation at 31 March 2008, the Fund amends the 31 December 2007 valuation for payments

Pension Fund Accounts

made to and payments received from the private equity managers in the period 1 January 2008 to 31 March 2008.

Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year end, which is included separately within accrued investment income (as disclosed in Note 8 on page 103).

Futures are valued at the closing market price published by the relevant futures exchange (eg. London International Financial Futures Exchange).

Direct property investments have been valued, at open market value, at 31 March 2008, by Jones Lang LaSalle, Chartered Surveyors.

Acquisition costs are included in the purchase cost of investments.

4.3 Investment income

Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the fund account.

Income from fixed interest and index linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Pension Fund Accounts

4.4 Foreign currencies

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction. In the financial statements, balances are recorded at rates ruling on 31 March 2008.

4.5 Contributions

Normal contributions, both from the employees and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

4.6 Benefits payable

Under the rules of the Fund, retirees receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised.

Other benefits are accounted for on the date the member leaves the Fund or on death.

4.7 Transfers to / from other schemes

Transfer values are normally accounted for on a payment/receipts basis since not only do they frequently apply to several past years but, in the case of transfer values due, information is not available at the year end on which to make an accrual. However, where a transfer value has been agreed prior to the year end but the payment has not been made, this has been accrued.

4.8 Administrative and other expenses

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. A proportion of relevant officers' salaries have been charged to the Fund on the basis of time spent on investment related matters and pension administration.

Pension Fund Accounts

5. Membership activities

5.1 Membership

31 March 2007		31 March 2008
41,994	Contributors	43,152
22,386	Deferred pensioners	24,995
25,942	Pensioners	27,118

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

5.2 Pension benefits payable

2006/07 £000		2007/08 £000
38,681	County Council	42,076
45,451	District / unitary authorities	48,685
7,401	Other scheduled bodies	8,573
7,635	Other admitted bodies	8,522
<u>99,168</u>		<u>107,856</u>

5.3 Contributions receivable

2006/07 £000		2007/08 £000
121,341	Normal	141,464
8,741	Special	7,382
<u>130,082</u>		<u>148,846</u>

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

Pension Fund Accounts

2006/07			2007/08	
Employee £000	Employer £000		Employee £000	Employer £000
14,053	47,729	County Council	14,021	46,728
13,200	48,879	District / unitary authorities	12,957	53,169
9,710	24,557	Other scheduled bodies	10,617	28,948
3,158	8,917	Other admitted bodies	3,779	20,001
40,121	130,082		41,374	148,846

During 2007/08 lump sum contributions in respect of the Actuarial deficit were received from Chelmsford Borough Council (£1.843m) and Greenfields Community Housing (£6.277m). These amounts were paid following the 31st March 2007 Actuarial Valuation and, in accordance with the Pension SORP, have been recognised on receipt. In 2006/07 no lump sum contributions were received.

5.4 Transfers from other schemes

There were no amounts received in respect of group transfers from other schemes during 2006/07 or 2007/08.

5.5 Transfers to other schemes

No amounts were payable in respect of group transfers to other schemes during 2006/07 or 2007/08.

6. Investment income

2006/07 £000		2007/08 £000
7,798	Income from fixed interest securities	6,393
39,391	Dividends from equities	46,610
1,183	Income from index linked securities	1,217
9,058	Net rent from properties	8,253
2,713	Interest from cash deposits	5,212
714	Other	1,445
60,857	Total	69,130

Pension Fund Accounts

7. Administrative expenses

	2006/07	2007/08
	£000	£000
Administration and Processing	2,027	2,047
Actuarial Fees	146	185
Legal and other Professional Fees	112	35
	2,285	2,267

8. Investments

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

2007			2008	
£m	%		£m	%
-	-	Alliance Bernstein	141	4.9
447	14.8	Baillie Gifford and Co	443	15.3
294	9.8	Capital International	281	9.7
82	2.7	First State Investments (UK) Ltd	98	3.4
128	4.2	Goldman Sachs Asset Management International	135	4.7
899	29.9	Legal and General Investment Management	648	22.3
149	5.0	Marathon Asset Management Ltd	144	5.0
60	2.0	Martin Currie Investment Management Ltd	52	1.8
-	-	Mellon Capital Management	34	1.2
62	2.1	Mirabaud Investment Management Ltd	61	2.1
387	12.9	Morley Fund Management	351	12.1
99	3.3	Nomura Asset Management UK Ltd	94	3.3
179	5.9	Prudential M&G	-	-
-	-	Prudential M&G Alpha Opportunities	123	4.3
-	-	Prudential M&G Infracapital	52	1.8
61	2.0	Private Equity	51	1.8
-	-	Record Currency Management	38	1.3
163	5.4	Shareholder activism	145	5.0
3,010	100.0		2,891	100.0

The table below shows the movements in the market value of the investments held during the financial year, including profits and losses realised on the sales of investments since 1 April.

Pension Fund Accounts

2006/07 £m		2007/08	
		£m	£m
2,763	Value at 1 April		3,010
1,334	Purchases at cost	2,698	
(1,221)	Sale proceeds	(2,674)	
155	Change in market value	(221)	
(18)	Cash movement	75	
(3)	Other investments	3	
<u>247</u>			(119)
<u>3,010</u>	Value at 31 March		<u>2,891</u>

Pension Fund Accounts

An analysis of investment assets at 31 March is shown below.

2007 £000		2008 £000
	Fixed interest securities	
174,692	UK public sector quoted	86,051
10,458	UK public sector futures contracts	30,167
100,983	UK quoted	67,410
6,163	Overseas public sector	6,551
(37,369)	Overseas public sector futures contracts	16,785
43,319	Overseas quoted	49,477
	Equities	
471,237	UK quoted	357,251
-	UK quoted futures contracts	20,378
626,637	Overseas quoted	871,132
-	Overseas quoted futures contracts	999
413,039	UK unit trusts	314,678
379,976	Overseas unit trusts	149,424
	Index linked securities	
140,161	UK public sector quoted	128,702
9,097	UK quoted	28,427
2,140	Overseas public sector	-
	Managed funds	
77,134	UK unquoted	228,526
125,634	Overseas quoted	136,714
-	Active currency	70,283
	Property	
28,055	UK properties (leasehold)	27,390
120,015	UK properties (freehold)	92,605
232,929	Property unit trusts	187,194
	Cash deposits	
45,243	Sterling	67,529
5,630	Foreign currency	9,606
1,395	Margin accounts	2,392
26,911	Cash backing open futures contracts	(68,328)
	Investment accruals	
6,507	Debtors	5,586
(10,336)	Creditors	(6,701)
10,438	Income accrual	10,943
<u>3,010,088</u>	Value at 31 March	<u>2,891,171</u>

Pension Fund Accounts

The Fund holds the following investments in unit trusts / pooled vehicles at 31 March which are in excess of 5% of the value of the Fund:

2007			2008	
£000	%		£000	%
		Legal and General Investment Management Unit trust / pooled vehicle		
395,656	13.0%	UK Equity Index	304,812	10.6
181,241	6.0%	Europe (Ex UK) Equity Index	128,702	4.5

As at 31 March 2008, the Fund had a commitment to contribute a further **£76m** to existing partnership investments, including private equity (31 March 2007: £36m). It is anticipated that payments against these commitments will be made over the next 1 – 5 financial years.

9. Additional Voluntary Contributions (AVC) Investments

2006/07		2007/08
£000		£000
5,942	Value of AVC fund at beginning of year	6,447
519	Employees contributions	537
447	Investment income and change in market value	42
(461)	Benefits paid and transfers out	(671)
6,447		6,355

In accordance with regulations 5 (2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, additional voluntary contributions (AVCs) are not included within the transactions recorded within the Fund Account.

The AVC providers to the Fund are The Equitable Life Assurance Society and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

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

Pension Fund Accounts

10. Current assets and liabilities

31 March 2007 £000		31 March 2008 £000
	Current assets	
24,949	Cash invested with the Council	23,888
	Debtors and payments in advance	
13,190	Contributions due	16,302
	Current liabilities	
	Creditors and receipts in advance	
(5,348)	Benefits due/investment management expenses	(3,993)
<u>32,791</u>	Net total	<u>36,197</u>

11. Related party transactions

Under FRS8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

During the year, none of the Investment Steering Committee Members or Senior Officers has undertaken any material transactions with the Essex County Council Pension Fund. There were no material contributions due from employer bodies at the year end which remained outstanding after the due date for payment.

Note 10 to the accounts, on page 105, shows the Pension Fund cash held with the County Council at 31 March and note 7, on page 101, shows the charges made to the Pension Fund by the County Council for administration costs.

12. Further information

The Council publishes a separate Pension Fund Report and Accounts. Copies may be obtained from:

Group Manager Investments
PO Box 11
County Hall
Chelmsford CM1 1LX

Telephone 01245 431301 E-mail pensions.investments.web@essexcc.gov.uk

Governance Statement

1. Scope of responsibility

Essex County Council is responsible for 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.

The Council also 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.

In discharging this overall responsibility, Essex County Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes the management of risk.

The Council has approved and adopted a **code of corporate governance**, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*, which can be found on our website [www.essex.gov.uk] or obtained from the Governance Manager on 01245 430396.

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4.2 of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations 2006 in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of Essex County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Essex County Council for the year ended 31 March 2008 and up to the date of the approval of the Statement of Accounts 30 June 2008.

Governance Statement

3. The governance framework

This section describes the key elements of the systems and processes that comprise the Council's governance arrangements:

- **Identification and communication of the Council's vision of its purpose and intended outcomes for citizens and service users**
- **Reviewing the Council's vision and its implications for the Council's governance arrangements**

On 12th February 2008, the meeting of Full Council adopted a vision for the County and a four year work programme for the Council to achieve it. It is intrinsically linked with, and reflected in, the Essex Strategy, Local Area Agreement, Corporate Plan and the Council's Budget. EssexWorks also represented a step change in the way the Council communicates with its citizens, members, staff and partners (i.e. EssexWorks is also a disciplined communications programme and brand, based on the vision and work programme). The intended outcomes for citizens and service users are clearly set out in the original EssexWorks document (<http://www.essex.gov.uk/documents/EssexWorks.pdf>).

There are significant implications for the Council's governance arrangements, formal and informal. Ultimately, the Cabinet is accountable to full Council for delivering the EssexWorks programme. Thus at the Budget meeting of the full Council, the Cabinet will report on progress against implementing the annual pledges as well as progress towards achieving the overarching vision. Policy and Scrutiny Committees have a role in scrutinising the performance of the County Council against its objectives as set out in EssexWorks and the Corporate Plan. Finally, the Projects Board, a non-decision making group, will monitor progress against the pledges outlined in EssexWorks.

- **Measuring the quality of services for users, and ensuring they are delivered in accordance with the Council's objectives and that they represent the best use of resources**

The Council's corporate performance management framework sets out the arrangements for ensuring that we deliver services in accordance with the Council's objectives. This has been strengthened and has evolved over the year. The performance framework encompasses corporate and service planning arrangements, to ensure that we are setting appropriate targets and measuring the right things to deliver high quality, value for money services.

Performance information is captured and reported via the corporate system PBViews, and is monitored through a monthly corporate scorecard and action plan, alongside finance and risk management reports. Performance is reviewed regularly across the Council and with our LAA partners at different levels, including, for example the Essex Partnership, Cabinet, Scrutiny Committees, Corporate

Governance Statement

Leadership Team (CLT) and Directorate management teams as well as at unit and team level, and in individual 'my Performance' reviews.

In response to findings from ongoing external assessment and a peer review in preparation for our Corporate Assessment, we developed a Corporate Improvement Plan in 2007, which sets out the actions and milestones to deliver improvements across a range of cross-cutting themes. Progress against this report is monitored each month by CLT, with in-depth discussion around particular improvement themes every two weeks.

Performance management is closely linked to risk management, to ensure that we understand the risks to delivery and implement and monitor appropriate mitigating actions. In the last year the Council has delivered risk management training to over 900 managers. JCAD, a corporate risk management software system, was installed in 2007 and is now used by all services to record and manage risk. A corporate risk management group exists to support the effectiveness of risk management processes. All reports to CLT include an assessment of potential risk and the corporate risk log is regularly reviewed by CLT. Any potential risks identified through internal audit are reported to the corporate risk manager and services for inclusion on JCAD where appropriate.

- **Project Management**

The Essex Project Approach is a new Governance structure launched in January 2008 to support the successful delivery of projects in Essex. The governance arrangements apply to complex projects which are reviewed first by the Project Management Steering Group (an officer group of some functional Heads and experienced Project Managers from across the organisation) and then by Essex Project Board made up of Cabinet members and senior managers. The Essex Project Board replaces the Investment Board and the Improving our Services Steering Group and, in doing so, simplifies the governance route for all complex and cross-directorate projects. The Essex Project Board's key responsibility is to improve the quality of project delivery and benefits realisation of projects and accelerate the overall pace of change across the Council.

- **Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**
- **Developing, communication and embedding codes of conduct, defining the standards of behaviour for members and staff**

The roles and responsibilities of the Executive, Non-Executive, Scrutiny and Officer functions are defined in the Constitution and supporting documents. The delegation arrangements are reviewed in response to changes in the configuration of Cabinet responsibilities and reorganisations within the County Council Officer core.

Governance Statement

There are clearly defined member, officer and officer/member codes of conduct which are regularly communicated both to members and officers alike supported by a 'whistle blowing' policy, Standards Committee, Register of Interests and inductions procedures.

Key responsibilities of the Statutory Officers, namely the Section 151 Officer and the Monitoring Officer are to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure probity and sound financial standing. These procedures are tested for compliance through the assurance element of the Internal Audit programme.

The Council has responsibility for approving and maintaining the validity of the Constitution. Council approves regular updates to the Constitution to reflect changes in the Council's structures and processes.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedural notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**
- **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Council undertakes an ongoing review of its regulations and standing orders to ensure that they reflect the changes in the Council's risk environment and activities. Internal audit perform annual reviews of the scheme of delegation structures and provide recommendations for policy and procedural improvement. The work of internal audit is also carefully aligned to understanding and mapping processes and ensuring that process design incorporates key oversight controls around decision-making. As part of the assurance programme for 2007/08 we have introduced a much clearer link between the registration and subsequent auditing of risks and are now able to provide key assurance on the effectiveness of governance risk management as well recommendations for its constant improvement.

As part of the Council's reshaping we have maintained a constant link with the Executive and Audit Scrutiny Committee and the Audit Sub-Committee, not only through presentation of progress in delivering the internal audit programme, but also by monthly meetings with the Chair of the Audit Committee. At this meeting the Head of Internal Audit and the Chair have reviewed reports, particularly those with limited assurance, reviewed the continuing embedding of risk management and evaluated ways to ensure that the internal audit/external audit relationship is functioning effectively.

As part of 2008/09 we will be increasing the regularity of the full Audit Sub Committee meetings.

Governance Statement

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful**

Our programme of internal audit work is risk based and incorporates efficiency, effectiveness, compliance, value for money, anti-fraud and specialist audit work in the year and our planned reviews have a strong emphasis on compliance with established procedures. This extends to central and cross cutting processes as well as establishment visits. The Head of Internal Audit also participates in the Policy and Procedures Management Committee and is consulted in terms of how new processes should be established from a controls perspective.

The annual audit plan has a significant amount of transaction based testing orientated towards review of expenditure to ensure that both Members and Senior Management have assurance that the Council's money is being spent in accordance with the financial regulations.

Bi-monthly meetings are also held between each Executive Director, the S151 Officer and the Head of Internal Audit to review working processes and practices, and consider the system of internal control operating within the specific service areas. Each Director is required to complete an evidence based self assessed assurance statement accompanied by a plan setting out actions to be taken to strengthen any areas of weakness.

All reports to both CLT and Cabinet have to incorporate the comments of both the S151 Officer and the Monitoring Officer.

- **Whistle blowing and arrangements for receiving and investigating complaints from the public**

Essex is committed to achieving high standards of integrity and accountability and expects the same commitment from its employees and others working for or in the Council. Essex promotes an open environment that enables staff to raise issues with confidence that they will be acted upon appropriately without fear of recrimination. Published on the intranet, within the Working here site, the Whistle Blowing Policy provides staff with a formal process to raise concerns relating to wrongdoing, impropriety or breach of procedure.

Essex County Council values complaints, comments and compliments from its customers and uses the feedback within its planning processes to help shape services that support its customers. Customer complaints are investigated fairly and impartially. Complainants experience no effect on entitlement to services. Essex manages and responds to customer complaints within the Corporate Complaints, Comments and Compliments policy and aims, wherever possible, to resolve the complaint as close to the original point of customer contact as possible.

Governance Statement

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

In the last year we have improved the three core channels to make them more accessible to a wider audience - our residents' magazine, EssexWorks, our A to Z guide to public services in Essex and our website. All now reflect the County Council's core vision and priorities. We have a number of established channels for internal stakeholders and have introduced a weekly e-newsletter for partners.

Our new branding guidelines applied to all our communications ensure that information can be translated into different languages and alternative formats. This applies to our website and printed materials.

An extensive consultation programme has been delivered over the last twelve months, directly informing our work to develop our vision and priorities in Essex Works and, with partners, in the Essex Strategy. The budget consultation included a highly visible campaign across the county gathering opinion and views about priorities and quality of life factors, complemented by a more scientific analysis of these issues using a postal survey and focus groups. Regular and systematic monitoring via a quarterly tracker survey gives us data on trends and this is supplemented by qualitative work with focus groups from the citizens' panel.

- **Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report *Governing Partnerships: Bridging the Accountability Gap*, and reflecting these in the Council's overall governance arrangements**

The Council has a number of important strategic partnerships and has undertaken a review of the arrangements of these to ensure they operate in a transparent way. Specific action has been taken to improve the governance arrangements of these:

- Disseminating good practice and through the review of partnership governance, identifying areas of activity to be developed;
- Improving clarity of partnership working by improving the transparency of partnership governance arrangements and mapping Essex County Council engagement with partners;
- Establishing a partnership register which will record the governance arrangements of all partnerships; and
- Through the review of partnership governance, assessing the effectiveness of all partnerships and highlighting any issues to be dealt with.

Governance Statement

4. Review of effectiveness

Essex County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and the maintenance of the governance environment, the Head of Internal Audit's annual report, and also comments made by the external auditors and other review agencies and inspectorates.

The following sets out the process that has been applied in maintaining and reviewing the effectiveness of the governance framework:

- The Cabinet considers the reports of the External Auditor and responds to any recommendations regarding the Council's governance arrangements;
- The Executive and Audit Scrutiny Committee has responsibility for scrutinising governance arrangements and for satisfying itself as to how the Cabinet responds to the External Auditor's recommendations regarding governance arrangements. The Committee also approves the Annual Plan and receives progress reports from the Head of Internal Audit; and
- The Standards Committee meets regularly to promote and maintain high standards of conduct by members and advises Council accordingly.

During the year, the Corporate Governance Group (a group of senior officers in the Authority comprising the Assistant Chief Executive, the Section 151 Officer, the Monitoring Officer, the Head of Governance and the Head of Policy and International Unit) was established to consider whether there are any changes required to the Council's existing Code of Corporate Governance and if there are any changes in the arrangements for ensuring its ongoing application and effectiveness. The CIPFA/SOLACE Framework and Guidance on Good Governance have been used as a tool for this purpose; a work plan has been devised to address the issues that arise from the process and is being implemented across the Council.

The 2008/09 internal audit plan has been developed after wide consultation with both key stakeholders and Council staff, as well as external inspection bodies, to make sure that we accommodate all the issues that are likely to affect governance in the new financial year. This audit work is being delivered by our staff in conjunction with specialist resources from the private sector and our improvement agenda will be focussed on ensuring we make processes robust and efficient and that management take internal audit findings and recommendations seriously.

Governance Statement

5. Significant governance issues

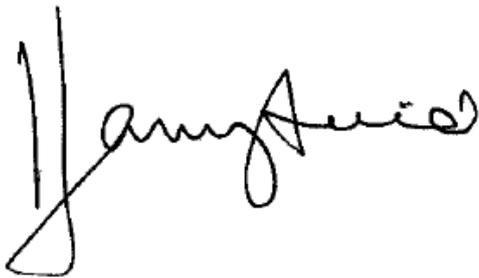
From our work in 2007/08 and from our planning for 2008/09 we have been closely tracking the key risks to the Council over the 12 months to the 31 March 2008 and the year ahead. The risks considered as a priority for us to mitigate promptly are as follows:

- Failing to drive out all of the efficiencies from our contractor and supplier relationships. The Council is a forward looking authority and has made some good decisions on choosing to allow the market to provide us with improved and more cost effective solutions to meeting the needs of officers and residents. However, we need to continue to be proactive in managing these relationships to ensure that we gain all the available efficiencies from our suppliers through robust contract management.
- Ensuring that our systems are resilient to the challenges of the future. The Council takes its responsibilities to the community very seriously and in an ever changing world we need to constantly ensure our processes can cope with the kind of emergencies occurring in modern life. During 2007/08 we undertook Council wide testing of our Business Continuity arrangements, however, for some of the year we did not have full assurance that we could carry on with business as usual for our highest risk activities. For 2008/09 we are undertaking a comprehensive assurance and internal audit programme on our IT processes to embed the high level of testing and preparedness established in the latter half of 2007/08.
- Further embedding risk management. Although we have gone a long way towards embedding risk management in our activities and have significantly raised the profile of the risk management function and integrated the real time testing of its effectiveness into our internal audit plan, there remains more to be done. We need to ensure the pockets of good practice are disseminated throughout all departments and that consideration of risk is something which our most junior members of staff have at the front of their minds when carrying out our business. For example, the impact of the equalities agenda is something we could have identified more quickly, although we are now ensuring that we comply fully with the legislative requirements around this.
- Embedding best practice governance. In terms of governance the Council is keen to be a best in class organisation. We are currently reviewing the Constitution, are rolling out Member Training and have restructured the Internal Audit function to give it enhanced skills and a profile to challenge the Council on how it does business. More needs to be done however, including ways for us to make the decision making process more transparent. We are constantly looking at ways to communicate what we do with local residents but more can always be done and we are looking at our scrutiny functions again in 2008/09 to ensure that they reflect the very highest levels of both ethical governance and current thinking on decision making transparency.

Governance Statement

- Managing the risks of failing to meet our efficiency targets. As one of the UK's largest local authorities, we have considerable pressure on meeting legislative requirements, demand for our services and expectation. This is only to be expected, but we are ambitious in our programmes and must make sure we organise our processes around meeting our objectives. In 2007/08 we have restructured our financial processes within the Highways Department and are committed to a finance transformation programme for the year ahead which will make it easier for us to meet the ambitious savings targets we set ourselves in the 2008/09 budget whilst continuing to deliver the best services possible to our residents.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



Lord Hanningfield
Leader of the Council



Joanna Killian
Chief Executive of the Council

Glossary of terms

Terms	Explanation
Accrual	An accrual is a sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuary	An actuary is a suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Actuarial gains and losses	Actuarial gains or losses for defined benefit pension schemes arise because events have not coincided with the assumptions previously made by the actuary, or the actuarial assumptions have changed compared to the prior year.
Accrued benefits valuation method	<p>A valuation method in which the Pension scheme's liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"> • 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.
Additional voluntary contributions (AVC's)	AVC's are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortisation	Amortisation is the writing down of costs to the Income and Expenditure Account over a number of years.
Amortised cost	The value of a contractual asset or liability based upon the underlying cost to the Council of that activity as opposed to the actual cash flows incurred. This is calculated using the effective interest method.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Balance Sheet	This is a summary of the financial position of the Council. It shows the balances and reserves at the Council's disposal, long term indebtedness and fixed and net current assets employed. It excludes the balances and reserves relating to the Pension Fund and the Council's Trust Funds.
Cabinet	The Cabinet comprises the Leader of the Council, who is its chairman, and nine other Members appointed by the County Council. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Council annually.

Glossary of terms

Terms	Explanation
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> • Amounts set aside from revenue resources to repay external loans; • The financing of capital payments from capital receipts and revenue reserves; and • The consolidation of gains arising from the revaluation of fixed assets prior to 1 April 2007. <p>The account was created on 1 April 2007 by amalgamating the Council's Capital Financing Account and Fixed Asset Restatement Account as required by the SORP 2007.</p>
Capital expenditure	<p>This is expenditure on the acquisition of fixed assets (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.</p>
Capital financing costs	<p>Costs associated with the financing of fixed assets, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.</p>
Capital Financing Requirement	<p>This is a measure of the Council's underlying need to borrow for capital financing purposes.</p>
Capital programme	<p>The Council's plans for capital spending over future years, including the purchase of land and buildings, erection of new buildings and works, design fees, information technology development and the acquisition of vehicles and major items of equipment.</p>
Capital receipts	<p>Proceeds from the sale of assets, which may be used to finance new capital expenditure or set aside for the repayment of external loans.</p>
Chartered Institute of Public Finance and Accountancy	<p>CIPFA is the main professional body for accountants working in the public service.</p>
Community assets	<p>Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.</p>
Company limited by guarantee	<p>A company limited by guarantee is one in which the liability of its members has been limited to the amount they have agreed to contribute towards the company's assets in the event of the company being wound up.</p>
Contingent liability	<p>Contingent liabilities are possible or present obligations that arise from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities are not recognised in the accounts as an item of expenditure.</p>
Council tax	<p>A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).</p>

Glossary of terms

Terms	Explanation
Creditors	Amounts due, but not yet paid, for work done, goods received or services rendered during the financial year.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Deferred credits	Deferred credits represent income still to be received, where the Council has agreed that amounts are payable beyond the next year, either at some point in the future, or by an annual sum over a period of time.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is above the rate of interest payable on the loan being repaid, the Council is compensated by the PWLB for the interest rate differential. This differential is referred to as a 'discount' arising from early settlement of the loan.
Discount rate (actual)	Pensions liabilities are assessed on an actuarial basis, to estimate the pensions that will be payable in future years. In assessing these liabilities the Actuary uses an actual discount rate to reflect the time value and characteristics of the liability.
Discount rate (real)	The real discount rate represents the difference between the actual discount rate used by the Pension Fund Actuary to determine the pension's liabilities, and the rate of inflation assumed by the Actuary.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Glossary of terms

Terms	Explanation
Dormant company	The term ‘dormant’ applies to a company that, in legal terms, has no significant accounting transactions during a financial year. Companies can be dormant in order to hold an asset, or to protect the company name. Whilst the company is dormant, various returns and the annual company Balance Sheet must nevertheless be prepared and filed with Companies House.
Effective Interest Rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see ‘Leasing’ and ‘Operating Leases’).
Financial Instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Financial Instruments Adjustment Account	An account within the Balance Sheet used to manage the difference between the rules for accounting for financial instruments and the statutory provisions for charging amounts to the General Fund Balance.
Fixed asset restatement account	This account represented the balance of the surpluses or deficits arising on the revaluation of fixed assets and was written down by the net book value of assets on their disposal. The SORP 2007 removed the need for this account on 1 April 2007, transferring its balance to the Capital Adjustment Account and creating in its place a Revaluation Reserve.
Fixed assets - intangible	Assets that do not have physical substance but are identifiable and controlled by the Council and will bring benefits to the Council for more than one financial year. Examples include software licences.
Fixed assets - tangible	Assets that have a physical substance and are held for the provision of services, or for administration purposes, on a continuing basis.
Interest – Local Authority Seven Day Rate	A published interest rate, representing the return that local authorities could expect to achieve from temporarily investing their cash balances via the money markets.

Glossary of terms

Terms	Explanation
Investments (non Pension Fund)	<p>A long term investment is intended to be held for use on a continuing basis in the activities of the Council. Investments are so classified only where an intention to hold the investment for the long term (greater than one year) can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
Investments (Pension Fund)	<p>The investments of the Pensions Fund are accounted for in the statements of the Fund. However, authorities (other than town parish and community councils and district councils in Northern Ireland) are also required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.</p>
Joint venture	<p>A joint venture is an entity that the Council is able to apply some influence over the operating and financial policies of, in conjunction and with the consent of the other participants in the entity.</p>
LAAP Bulletin	<p>These are bulletins issued by CIPFA's Local Authority Accounting Panel (LAAP) on topical accounting issues and developments, to provide clarification upon detailed accounting guidance.</p>
Leasing	<p>Leasing is a method of acquiring the use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.</p>
Monitoring Officer	<p>The Monitoring Officer is responsible for promoting and maintaining high standards of financial conduct. The Monitoring Officer is also responsible for reporting any actual or potential breaches of the law or maladministration to the Council and/or Cabinet.</p>
National non domestic rates	<p>These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are paid into a national pool. The pool is then divided between all authorities in proportion to their formula grant allocation.</p>
Net expenditure	<p>Net expenditure is arrived at after deduction of income and specific grants, and includes the costs of support services.</p>
Non operational assets	<p>Fixed assets not directly used or consumed in the delivery of services, or for the service or strategic objectives of the Council. Examples include assets that are surplus to requirements (pending sale or redevelopment) and assets under construction.</p>
Operating leases	<p>Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).</p>

Glossary of terms

Terms	Explanation
Operational assets	Fixed assets held and occupied, used or consumed in the direct delivery of services.
Precept income	The amount the County Council requires the Borough / District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is below the rate of interest payable on the loan being repaid, the Council is required to recompense the PWLB for the interest rate differential. This differential is referred to as a 'premium' arising from early settlement of the loan.
Private Finance Initiative	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership	An arrangement where the private sector partner agrees to provide a service to a public sector organisation. The PFI is one form of a PPP.
Projected unit method	The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
Public Works Loan Board (PWLB)	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government's own borrowing rate.
Remuneration	All amounts paid to or receivable by an employee, including sums due by way of expense allowances and the estimated money value of any other benefits received by an employee otherwise than in cash. This excludes employers' pension contributions to the Pension Fund.
Reserves	The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events. Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.
Revaluation Reserve	This reserve records the net gains arising on the revaluation of the Council's fixed assets from 1 April 2007. The SORP 2007 required the Council to establish the reserve on 1 April 2007. Previously, gains and losses were taken to the Fixed Asset Restatement Account. The balance on the Fixed Asset Restatement Account as at 31 March 2007 was transferred to the Capital Adjustment Account on 1 April 2007 in accordance with the SORP 2007.

Glossary of terms

Terms	Explanation
Revenue Provision	The minimum amount which must be charged to a revenue account each year and set aside for repaying external loans, currently 4% of the capital financing requirement.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	<p>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:</p> <ul style="list-style-type: none"> ▪ 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. <p>This is because these are not given in exchange for services rendered by employees.</p>
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the ‘projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.
Section 151 Officer	Section 151 of the Local Government Act 1972 requires the Council to appoint an officer responsible for the proper administration of the Council’s financial affairs. The Head of Corporate Finance is the Council’s Section 151 Officer.
Settlement	<p>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:</p> <ul style="list-style-type: none"> ▪ 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. ▪ The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.
Specific Government Grants	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Transaction costs	Costs incurred as a direct result of undertaking a business transaction. They may include fees and commissions paid to agents, advisers, brokers and dealers, as well as transfer taxes and duties. They do not include internal administration costs.
Trust Funds	Funds administered by the Council for such purposes as prizes, charities and special projects.

Glossary of terms

Terms	Explanation
Vested rights	<p>In relation to a defined benefit pension scheme, these are:</p> <ul style="list-style-type: none">▪ 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. <p>Vested rights include, where appropriate, the related benefits for spouses or other dependants.</p>

Feedback Form

We would appreciate it if you could take the time to complete this questionnaire and return it to use at Essex County Council, Corporate Finance, PO Box 11, County Hall, Chelmsford, Essex CM1 1LX.

If you would rather complete this form online, you can access a copy at:

<http://www.essex.gov.uk/financefeedback>

1. Is the information provided useful? Yes / No *
 2. Is the document easy to read? Yes / No *
 3. Is the information provided easy to understand? Yes / No *
- If no, what would aid your understanding? Yes / No *
- (eg. increased use of charts/graphs, written explanations, more non financial information).

4. Is there any additional information that you would like to see in the document?

5. Are there any ways we could improve the document?

6. Are you responding as an Essex resident / an Essex business / other stakeholder?*

* Please delete as applicable

Thank you for taking the time to complete this questionnaire.

Statement of Accounts 2007/08

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