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Statement
Of Accounts
2011 / 12

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Explanatory Foreword

1. Introduction

The purpose of this Statement of Accounts is to present the Council's financial performance for the year 2011/12 and the overall financial position of the Council as at 31 March 2012. This foreword aims to give a general guide to the main features of the information reported within the rest of the Accounts and provides a summary of the Council's overall financial position. The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Accounting Standards Board and the Government.

2. Statement of Accounts

The Statement of Accounts brings together the major financial statements for the Council for the financial year 2011/12. The statements included, along with an explanation of what they show, are:

- **Comprehensive Income and Expenditure Statement -** This statement shows the net cost for the year of the functions for which the Council is responsible, and how these have been funded. The 'Surplus or Deficit on Provision of Services' (£196.072 million) is the best measure of the financial result in accordance with International Financial Reporting Standards (IFRS). There are certain gains and losses which the Council experiences, which are not reflected in the 'Surplus or Deficit on Provision of Services', as they are dependent on future events before they are realised (e.g. increases in asset values will only be realised if the asset is sold). These are recognised under 'Other Comprehensive Income and Expenditure', to give the 'Total Comprehensive Income and Expenditure for the Period'.

- **Balance Sheet** - This statement shows the Council's financial position at the end of the year. It details the assets that the Council has available to deliver services, as well as future obligations to make payments (liabilities). The net assets of the Council (assets less liabilities, £1,539 million) are matched by the reserves held by the Council. Reserves are reported in two categories; those which are useable (i.e. those that can be used to provide services) and those which are unusable (which relate to unrealised gains/ losses and differences between accounting treatments).

- **Movement in Reserves Statement** - This statement provides analysis of the movement in the reserves (as shown on the Balance Sheet) during the year. The first reserve analysed is the General Fund Balance. The overall movement in the General Fund Balance (£6.865 million) is what must be taken into account when determining the Council's budget requirement (and therefore its Council Tax demand). This movement statement shows the adjustments required between the 'Surplus or Deficit on Provision of Services' (from the 'Comprehensive Income and Expenditure Statement') to get to the General Fund Balance movement. The overall balance on the General Fund (£25.153 million) is available to support the future costs of providing services.

- **Cash Flow Statement**- This statement shows the flows of cash (and cash equivalents) in and out of the Council during the year. These flows are analysed based on whether they arise from operating, investing or financing activities.

3. Financial summary – performance against budget

The Statement of Accounts provides comparatives with the previous year (2010/11), restated so that it is on a comparative basis. This is to give some context to the current year totals. This section provides a comparison of actual spend for the year with that budgeted. This provides an indication of financial stewardship (i.e. how well the Council has managed the resources that it allocated to service areas).

The following summary of the Council's revenue monitor shows an underspend of £0.044 million against the latest approved budget as presented to the Cabinet on 18th June 2012.

	Latest Approved Budget £'000s	Actual £'000s	Over (under) spend £'000s	%
Children's Services	261,675	241,926	(19,749)	(7.6%)
Health and Community Services	367,375	365,271	(2,105)	(0.6%)
Environment and Commercial Services	139,510	135,857	(3,653)	(2.6%)
Community Protection	44,458	44,373	(86)	(0.2%)
Resources and Performance	6,487	(98)	(6,585)	(101.5%)
Capital Financing and Interest on Balances	44,795	63,583	18,788	41.9%
Contingency/Special Provision	705	-	(705)	(100.0%)
Review of Balance Sheet	(14,259)	(199)	14,060	(98.6%)
Precepts/Levies	2,207	2,197	(10)	(0.5%)
Non-distributed costs	60	60	-	-
Capital Charges	(196,562)	(196,562)	-	-
Pensions Interest Cost & Expected Return on Assets (RoA)	139,959	139,959	-	-
Pensions Reserve Appropriation	-	-	-	-
Central Unallocated Grants	-	-	-	-
Net Revenue Budget	**796,412**	**796,368**	**(44)**	**(0.01%)**
Funded from Balances	(467)	(467)	-	-
County Fund Total	**795,945**	**795,901**	**(44)**	**(0.01%)**

The underspend of £0.044 million represents the early delivery of transformation savings (£43.7 million declared in February monitor) necessary to deliver the Council's medium term savings target offset by the following: -

- Application of £24.1 million as revenue contribution to capital expenditure (RCCO) to eliminate the need for prudential borrowing to support the 2011/12 capital programme and so reduce capital financing costs in subsequent years;
- Application of £12 million to a reserve to fund the Local Authority Mortgage Scheme (LAMS);
- Service carry forward requests approved amounting to £5.9 million
- Increase of £3 million for the self insurance fund to deal with the latest actuarial assessment;

The underspend achieved in 2011/12 does not negate the need for the Council to reduce annual spending by £200 million per annum over the period 2010/11 to 2014/15

The court settlement approved by the Icelandic District Court in relation to the Council deposits with Glitnir and Landsbanki banks allowed for the release of £10 million from specific reserves. In accordance with Cabinet approval this has been used to create additional specific reserves as follows:

- A transfer of £2 million into the MMI Reserve to recognise the increased risk relating to the Municipal Mutual Insurance contingent liability
- A transfer of £1 million to the new Academy Conversion Reserve to finance the planning and legal costs associated with Academy conversions as the number of schools converting escalates

The Council's internal management accounting structure, against which budget managers are held accountable, differs from that which is required to be presented in the Statement of Accounts. The Statement of Accounts is determined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and set out in the Service Reporting Code of Practice (SERCOP). It is designed to facilitate comparison between different local authorities' Statement of Accounts.

The movement from the revenue monitor underspend to the position reported in these accounts is shown in the following table.

	£'000s
Revenue monitor underspend 2011/12	(44)
Add: Release of Icelandic Reserve	(10,000)
Less: Transfers to specific reserves detailed above	3,000
Reduction in impairment losses on Icelandic investments	(580)
Exit Packages Provision and other minor adjustments	757
	(6,867)
General Fund Balances as at 1 April 2011	(18,286)
General Fund Balances as at 31 March 2012	(25,153)

4. Capital programme & financing

In 2011/12 the Council's capital expenditure amounted to £181.237 million for capital schemes on buildings, adaptations, roads, equipment and intangible assets with a life of more than one year. A summary of the expenditure and how it has been financed is shown in the notes to the accounts together with details of material projects and their associated gross capital expenditure in the year. The Council regularly reviews its property portfolio to identify opportunities for recycling and disposal to assist the achievement of its capital programme.

In 2011/12 the capital receipts and payback reserves were reviewed as part of an overall examination of reserves and balances across the Council. This identified additional amounts to be applied to finance capital expenditure in 2011/12.

During 2011/12 there was some short term borrowing activity to cover temporary cashflow needs, but no borrowing to finance capital expenditure.

5. Pensions liability

Local Authorities are required to comply with the disclosure requirements of IAS19 - Employee Benefits. Under IAS19, the Council is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the Council and the cost of pensions. IAS19 is based on the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

The significant changes that have taken place during the year are that the deficit has increased due to falling real bond yields and lower than anticipated asset returns and the projected pension expense for the next year has also risen for the same reasons and reduced the expected asset rates of return. There are statutory arrangements for funding the deficit and the deficit will be made good by increased employer contributions over the remaining working life of employees, as determined by the scheme's actuary.

6. The Council's current facilities and capital borrowing

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents capital expenditure up to the end of 2011/12, less the accumulated charge of capital expenditure to revenue (the Minimum Revenue Provision), calculated in accordance with statutory requirements. The Council is permitted to borrow up to the level of CFR and in anticipation of future increases in CFR; and to meet short term cashflow needs within levels set in the annual Treasury Management strategy.

During 2011/12 there was some short term borrowing activity to cover temporary cashflow needs, but no new borrowing to finance capital expenditure. Capital spend of £181m was financed by grants (£138m); capital receipts (£0.93m); reserves (£17m), and revenue funding (£25.2m).

7. Material charges in the accounts

As a result of a number of schools converting to Academy Status during 2011/12 a transfer of assets under both IAS 17 and IAS 16a was made, according to relevant legislation such as the Academies Act. The Council has, by way of 125 year leases, let £180million of Land & Buildings relating to the conversion to Academies. As these academy leases have been assessed as finance leases, International Accounting Standards require these assets are also removed from the Council's accounts and this has been done on the basis that the Council has received no cash for this transfer.

There is also an exceptional item included in the Comprehensive Income & Expenditure Account in relation to the transfer of balances to schools converting to Academy status. Upon conversion, the school is given a settlement including its share of retained balances included within the Council's earmarked reserves. This transfer is funded by the release of the reserve so does not impact on the General Fund and is not shown as part of the cost of providing Children's and Education Services.

8. Changes in accounting policies

The key changes to the accounting policies for 2011/12 result from the adoption of FRS 30 Heritage Assets

Heritage Assets are assets that are intended to be preserved in trust for future generations because of their cultural environmental or historical associations. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities. The Council uses insurance valuations as an appropriate and relevant valuation for its heritage assets and these valuations are carried out and verified by external valuers Townley Valuation Services (TVS). In exceptional circumstances where a cost or valuation of a heritage asset cannot be determined and are not reported in the balance sheet the Council discloses any information available which is helpful in assessing the value of those assets, including why it has not been possible to obtain a value, along with the significance and nature of those assets.

The Council has not been able to determine a cost or valuation for its Record Office documents known as Hertfordshire Archives and Local Studies (HALS); accordingly HALS is not reported in the balance sheet.

The Council's heritage asset collection is relatively static and acquisitions, donations or disposals are rare. If they do occur acquisitions are capitalised and initially recognised at cost, donations or bequeaths at nil consideration are recognised at valuation as provided by our external valuers and disposals lead to derecognition of the carrying amount of the heritage asset with a gain or loss being included in the Surplus or Deficit on the Provision of Services.

It is considered that the Council's heritage assets have an indefinite life and are not depreciated but tested for impairment annually. Disposals of heritage assets would require member approval.

Other accounting policies: In addition to the adoption of FRS 30 there are two other new accounting policies for 2011/12 relating to accounting for the Carbon Reduction Commitment Scheme (CRC) and Foreign Currency transactions which are detailed below in the Statement of Accounting Policies.

9. Changes in statutory functions

During 2011/12, the Council took on responsibility for passenger transport concessionary fares. This transferred from the District Councils with a budget of £12.467m. The net spend on this activity in the year was £11.810m and this falls within the transfer of funding – Concessionary fares line of the Comprehensive Income & Expenditure Statement.

During 2011/12, the Council had one discontinued operation with the responsibility for running the Student Finance Service transferred to the Students Loans Company. This was previously included within the Children's & Education services line of the Comprehensive Income & Expenditure Statement.

10. Significant provisions, releases and write-offs

Icelandic Reserves

The court settlement approved by the Icelandic District Court in relation to the Council deposits with Glitnir and Landsbanki banks allowed for the release of £10 million from specific reserves.

Maternity Provision

The cost of maternity pay in schools has previously been met from a central schools budget and, due to the relatively constant nature of the cost, has simply been dealt with on an in-year basis even though there is an outstanding liability at each year end, which is consistent with the arrangements for other HCC staff.

From 2012/13 schools are being given the budget for maternity pay and can use this to provide insurance cover to meet the cost of future maternity pay as and when it arises but not in relation to staff who are already on maternity leave or past the expected week of confinement. In the case of schools which convert to academy status during 2012/13, but are maintained as at 31st March 2012, this results in a liability that HCC is required to pay to the academy during the conversion estimated at £2.374 million.

11. Material events after the reporting date

There have been no material events after the reporting date, which require to be taken into account in the financial statements.

12. Impact of current economic conditions

The Council embarked on the Council for the Future (transformation programme) in December 2009. This programme, which has a savings target of £200 million for the period to 2010/11 to 2014/15, is designed to deliver an efficiencies programme which enables the Council to deal with its ongoing demographic, inflation and other pressures within a reducing resources base. The final underspend position in 2011/12 prior to the application of RCCO, the transfer to fund LAMS and the increase to the self insurance fund, reflects early work to deliver the additional efficiencies targets for 2012/13 onwards.

In setting its medium term financial strategy the Council takes consideration of risks and uncertainties associated with projections of future pay, prices, interest rates, and projected levels and timing of income and potential liabilities. This is reflected in both the level of central contingency and the general reserves set aside to meet these risks.

Statement of Responsibilities

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

The County Council's responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director Resources & Performance;

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- approve the Statement of Accounts before 30 September 2012.

I confirm that the final accounts were approved by the Audit Committee at the meeting held on 13th September 2012.

Signed on behalf of Hertfordshire County Council.

Seamus Quilty

Chairman
Audit Committee
Date: 13 September 2012

Statement of Responsibilities

The Chief Finance Officer's responsibilities

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

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

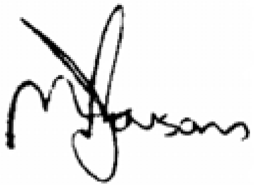
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The Chief Finance Officer has also:

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

Chief Finance Officer's Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the Council, the Hertfordshire County Council Pension Fund and the Firefighters' Pension Fund as at 31 March 2012 and the income and expenditure for the year then ended.



M Parsons
Director Resources & Performance
Date: 13th September 2012

Annual Governance Statement

1 Scope of responsibility

Hertfordshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is 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, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Hertfordshire County Council's Statement of Corporate Governance sets out its commitment to good governance and describes the Council's governance framework and processes. The governance principles that the Council adopts are consistent with those set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives document: *Delivering Good Governance in Local Government:*

- *Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area*
- *Members and officers working together to achieve a common purpose with clearly defined functions and roles*
- *Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour*
- *Taking informed transparent decisions which are subject to effective scrutiny and managing risk*
- *Developing the capacity and capability of members and officers to be effective*
- *Engaging with local people and other stakeholders to ensure robust public accountability.*

Hertfordshire's Statement of Corporate Governance is available on the Council's internet site, and is available to every elected Member.

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. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 risks to the achievement of the 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 Hertfordshire County Council for the year ended 31 March 2012 and up to the date of approval of this Annual Governance Statement and the statement of accounts.

3 The governance framework

The systems and processes that comprise Hertfordshire County Council's governance arrangements are set out in its Statement of Corporate Governance. Key elements include:

The Council's Corporate Plan: 'Hertfordshire – County of Opportunity', which was adopted in April 2009 and extends to 2015. The Plan sets out the seven challenging priorities that the Council has set itself including the commitment to ensuring that the services the Council provides continue to be of high quality and offer good value for money, whilst ensuring that services promote independence and are delivered in ways which give users a greater say in shaping the services they need. The Corporate Plan forms Part A of the Council's Integrated Plan and is refreshed annually as part of this process. The intention is that a new Corporate Plan will be developed for 2013.

The Integrated Plan for 2012/13 - 2014/15, which brings together the Council's corporate objectives and performance framework (Part A), the associated financial and human resource plans to deliver the corporate and service priorities, as well as providing information on how the Council achieves value for money in the provision of services, (Part B) and the treasury management strategy (Part C). The plan was developed through a robust policy choice and review and challenge process.

The Council's Constitution, which sets out the rules under which the organisation conducts its business. The Constitution aims to enable the Council to provide clear leadership to the community, in partnership with the public, businesses and other organisations; support the active involvement of members of the public in decision-making; help Councillors represent their constituents; enable decisions to be taken efficiently and effectively; enable decision-makers to be held to account; and ensure that decision-makers are identifiable and that reasons are given for decisions. All the annexes to the Constitution were reviewed and where necessary updated during the year.

The Council's well developed Risk Management Strategy and embedded risk monitoring processes, which operate at the highest levels of the organisation. These arrangements included a review by Service Departments of risks associated with meeting budget targets.

The Council's well-established scrutiny arrangements, which act to hold the Executive to account by scrutinising decisions made by, or on behalf of the Council or Cabinet and any operational or policy aspect of the Council's business. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the Council's control. Full details of the topics under scrutiny can be accessed on the Council's website.

The Audit Committee, which is charged with keeping the effectiveness of the Council's systems for risk management and internal control under review, as part of its governance role.

The Council's Whistleblowing Policy, which clearly sets out that employees must bring to the attention of a manager any deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.

The 'Tell Us' section of the Council's internet pages, which allows members of the public to:

- Submit complaints to the various directorates.
- Notify the Head of Assurance about suspected fraud and corruption (anonymously if required)
- Access information on current consultations and petitions.

The Council's commitment to maintain equality and diversity at the forefront of its service delivery and employment practices. Following the successful review against the "achieving" level of the Equality Framework for Local Government in February 2011, the authority is now aiming for an "excellent" peer review in 2013. To comply with the Public Sector Equality Duty (PSED) of the Equality Act the Council has published its equality objectives to demonstrate to the public of Hertfordshire how it intends to continue to meet the needs of all of Hertfordshire's communities. Also, as part of the PSED compliance the Council has published evidence to demonstrate achievements against its equality and diversity commitments. The objectives and evidence can be found on the Council's internet pages.

The Council's strategic and service level performance management processes, which have been strengthened to facilitate continuous improvement and identify and deal with failure in service delivery.

The Council's ongoing Member development programme, with dedicated Learning and Development support, and the system of Deputy Cabinet members which facilitates succession planning. Work to support Members in their local work, for example furnishing them with accessible community information, is being developed as part of the Hertfordshire Local programme.

The Council's Performance Management and Development Scheme, through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is supported by the Staff Development Charter, which requires the Council to assess the learning and development needs of officers and to meet those needs. The Council has Investors in People accreditation for all Departments and has also adopted a set of values and behaviours to reinforce what is expected of employees.

The Council's engagement with partners: following the introduction of the Hertfordshire Enterprise Partnership and the Shadow Health and Wellbeing Board, the County Council in its leadership role of Hertfordshire Forward, the countywide strategic partnership, will shortly be consulting partners on a new style core group that will ensure the overarching issues and the longer term future of Hertfordshire continue to be discussed and addressed.

In its financial management arrangements, ensuring compliance with the governance requirements of the CIPFA statement on the *Role of the Chief Financial Officer in Local Government.*

4 Review of effectiveness

Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control; in practice the Council operates a continuous process of review and improvement.

The Audit Committee leads on the regular review of risk and internal control arrangements. The Committee considers quarterly reports on the Authority's overall risk management arrangements and also receives reports on specific risk issues. The Committee approves the plan of internal audit work and receives quarterly updates on progress, with summaries of both assurance opinions and key matters raised in individual reviews. The Committee also considers updates from the external auditor and, where appropriate, the findings of other inspection agencies.

On an annual basis the whole of the Council's governance and control environment are reviewed as part of the process through which the Annual Governance Statement is prepared. The elements of this review include:

A comprehensive review by the Chief Legal Officer and Internal Audit of the Governance Framework as detailed in the Code of Corporate Governance;

A review of the internal control environment in accordance with CIPFA guidance, carried out by Internal Audit;

The Head of Assurance's Annual report and opinion on the internal control environment, prepared in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*, which provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control. The annual report consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2011/12, and is informed by the comments of external auditors and inspectors. The overall opinion on the internal control environment in 2011/12, based on the work carried out in year, was one of moderate assurance on the financial control environment and substantial assurance on the non-financial control environment.

A review of compliance with the CIPFA guidance document on the *Role of the Head of Internal Audit in Local Government;* and an independent review of the internal audit service;

The Service Assurance Statements submitted by each member of the Joint Leadership Team, acknowledging accountability for developing, maintaining and operating effective control systems to manage risk and identifying any exceptions where internal control requires strengthening;

Review of the recommendations, action plans and implementation of improvements arising from member scrutiny, officer led reviews and performance reports;

Responses to comments and recommendations made by the external auditors in their annual governance report and other reports from external inspectorates.

The results of this activity are considered by the Performance and Resources Officer Group from where the results are reflected in the Annual Governance Statement. The Statement is then considered at Strategic Management Board prior to signing by the Chief Executive and Leader.

The Audit Committee scrutinises the Statement annually at its June meeting.

In addition, a review of actions undertaken in response to the significant issues in the 2010/11 Annual Governance Statement has been undertaken and confirmed improvements as follows:

During 2010 the Council's External Auditors made a 'Section 11' recommendation for improvement relating to both: the timeliness and completeness of working papers prepared for External Audit; and the capacity of the HCC Finance Team to address those issues alongside the implementation of International Financial Reporting Standards requirements. Actions to address this were included within the Best Practice in Accounting Project. Progress on the project, which comprised multiple work streams, was regularly reported to HCC's Audit Committee and the successful completion of the project led to the District Auditor being able to conclude, in his 2010/11 Annual Governance Report, that he was satisfied that the Section 11 recommendation had been addressed.

The 2010/11 Annual Governance Report also contained six recommendations intended to further improve the arrangements in place for the production of the 2011/12 financial statements. These recommendations have been addressed through the Finance for the Future continuous improvement programme which relates to further development and improvement of finance processes and practice, including the final accounts processes.

In relation to the various property related matters highlighted in the 2010/2011 Annual Governance Statement and the need for effective programme delivery: early in 2011/2012 the Director of Resources & Performance sponsored a procurement programme to develop a new operating model to replace the existing components of the Hertfordshire Property Partnership, the main contractual aspects of which were due to expire in 2012. This initiative resulted in the development of three framework agreements, whereby services are obtained from an agreed select list with the selection of contractors governed by highly competitive tendering processes. These framework agreements covered activities such as adaptation and refurbishment as well as management of construction projects. Reactive and cyclical maintenance activities were supported by newly procured measured term contracts (MTCs) for the delivery of the associated works. The new MTCs improved upon the previous versions by linking client satisfaction and contractor performance to payment penalties and, where necessary, removal of works that have been commissioned. Management of the corporate property estate will continue to be delivered under a single, newly let, contract which provided significant savings over previous arrangements. The new contracted arrangements will contribute in excess of £3M to the Council for the Future programme with further savings expected from the more competitive environment and a more hands-on approach to contract management.

In relation to the Council for the Future Programme and the need for sustained focus on the number of large-scale procurement projects; widespread reorganisation and restructuring; significant service re-design and business change initiative: the Programme is subject to various sources of ongoing management assurance, monitoring and accountability. These include Senior Management Board receiving monthly reports covering financial, performance and strategic risk management data and strategic risks for the programme as well as regular reports to: Conservative Leadership Group; Policy, Resources and Performance Cabinet Panel; and Cabinet. In addition the programme has been the subject of positive reports by both internal and external audit with the latter concluding that: ‘the programme has robust governance, project management and reporting arrangements, with accountability at both member and officer level’.

5 Significant governance issues

From the review of arrangements the following matters have been identified as significant governance issues:

The Council’s medium term financial strategy has identified that further activity is required to ensure a balanced financial position in 2014/15; this activity is to be progressed within the robust framework of the Council for the Future Programme as noted above.

During the year the Council’s Chief Executive has signed an undertaking to improve the security of its data handling activity. This builds on the considerable work in the last year to improve this area of operation. Further work is required to minimise use of paper records, to target support for service areas, and to continue the drive to raise awareness with the organisation’s employees.

6 Other areas for improvement

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

A number of important procurement exercises are either recently concluded or underway which will lead to new arrangements for service delivery. The Council recognises the importance of working to ensure robust contract management in these areas once procurement decisions have been made;

A comprehensive internal audit of all the Councils major financial systems has taken place and a number of recommendations have been agreed to further improve financial management and control;

The Council’s anti-fraud and corruption policy and associated strategy are to be reviewed and updated to ensure they remain fit for purpose in view of the challenging economic context, and action will be taken to ensure the Council’s recently agreed anti-bribery policy is embedded;

Preparation will take place for the implementation of the Government's Freedoms Bill, to ensure the Council's recruitment arrangements remain robust; hard to recruit professions will continue to receive due focus through workforce planning and recruitment and retention initiatives;

Work will take place to establish effective governance and financial management arrangements for the Hertfordshire Local Economic Partnership;

Work will take place to ensure robust policies and processes are in place in relation to circumstances when the Council acts as appointee or deputy on behalf of particular service users.

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.

Signed:

Robert Gordon	John Wood
Leader	Chief Executive & Director of Environment
13th September 2012	13th September 2012

On behalf of Hertfordshire County Council

Independent Auditor's Report to the Members of Hertfordshire County Council

Opinion on the Authority and firefighters' pension fund financial statements

I have audited the financial statements and the firefighters' pension fund financial statements of Hertfordshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Hertfordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which include the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Hertfordshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Hertfordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:
- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Hertfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Mark Hodgson
Officer of the Audit Commission

3rd Floor

Eastbrook

Shaftesbury Road

Cambridge CB2 8BF

13th September 2012

Presentation of Financial Statements

1. Comprehensive Income & Expenditure Statement

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

2010/11 Restated					2011/12		
Gross Expenditure £000s	**Gross Income £000s**	**Net Expenditure £000s**		**Note**	**Gross Expenditure £000s**	**Gross Income £000s**	**Net Expenditure £000s**
402,103	(109,092)	293,011	Adult Social Care		396,316	(62,900)	333,416
5,489	(2,907)	2,582	Central service to the public		4,372	(2,899)	1,473
1,258,050	(1,013,733)	244,317	Children's & Education services		1,232,412	(845,747)	386,665
10,296	(5,036)	5,260	Corporate and Democratic core		6,977	(26)	6,951
30,984	(5,800)	25,184	Cultural & Related Services		26,928	(1,653)	25,275
49,317	(4,922)	44,395	Environmental & Regulatory Services		50,869	(6,675)	44,194
47,223	(1,703)	45,520	Fire and Rescue Services		52,079	(2,743)	49,336
96,564	(15,716)	80,848	Highways and transport services		101,829	(12,941)	88,888
23,944	(2,294)	21,650	Housing services		7,334	(2,899)	4,435
12,123	(7,981)	4,142	Non distributed costs		(3,356)	(1,912)	(5,268)
6,749	(1,796)	4,953	Planning Services		6,641	(2,439)	4,202
-	-	-	Police Services		342	(344)	(2)
-	-	-	Transfer of funding – Concessionary Fares	29	11,824	(14)	11,810
1,164	(206,674)	(205,510)	Exceptional Items - Pension Costs	47	-	-	-
-	-	-	Exceptional Items - Academies	5	8,944	-	8,944
1,944,006	**(1,377,654)**	**566,352**	**Cost of Services**		**1,903,511**	**(943,192)**	**960,319**
		51,776	Other Operating expenditure	9			180,687
		51,090	Financing and Investment Income & Expenditure	10			34,892
		-	(Surplus) or Deficit of Discontinued Operations	29			-
		(813,734)	Taxation and Non-Specific Grant Income	11			(979,826)
		(144,516)	**(Surplus) or Deficit on Provision of Services (A)**				**196,072**
		(8,642)	Surplus or Deficit on revaluation of Property, Plant and Equipment	24			(94,648)
		-	Surplus or Deficit on revaluation of available for sale financial assets	24			-
		(307,087)	Actuarial gains / loses on pension assets / liabilities	24			155,297
		(315,729)	**Other Comprehensive Income & Expenditure (B)**				**60,649**
		(460,245)	**Total Comprehensive Income & Expenditure (A+B)**				**256,721**

2. Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories; usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations of their useable and unusable reserves that the Council is not able to use to provide services.

31 March 2010 Restated		31 March 2011 Restated				31 March 2012	
£000s	£000s	£000s	£000s		Note	£000s	£000s
2,911,308		2,885,719		Property, Plant & Equipment	12	2,685,935	
-		-		Investment Property	12	-	
27,488		27,488		Heritage Assets	13	27,488	
5,230		4,477		Intangible Assets	14	7,272	
-		-		Assets Held for Sale	20	-	
28,646		9,121		Long Term Investments	15	4,491	
24,647		21,694		Long Term Debtors	18	18,949	
	2,997,319		**2,948,499**	**Long Term Assets**			**2,744,135**
7,492		17,570		Short Term Investments	15	31,116	
3,002		345		Assets Held for Sale	20	7,857	
3,770		4,250		Inventories	16	4,466	
103,379		103,032		Short Term Debtors	18	97,916	
-		25,012		Financial Instruments Available for Sale	15	105,061	
16,126		25,978		Cash and Cash Equivalents	19	67,354	
	133,769		**176,187**	**Current Assets**			**313,770**
(8,073)		(2,985)		Short Term Borrowing	15	(31,398)	
(1,020)		(922)		Short Term Liabilities	15	(706)	
(198,575)		(195,697)		Short Term Creditors	21	(203,760)	
(2,015)		(2,424)		Amounts owed to Hertfordshire Police Authority	31	(60)	
(22,384)		(15,375)		Provisions for Accumulated Absences	24	(22,157)	
(9,899)		(7,297)		Short Term Provisions	22	(9,401)	
	(241,966)		**(224,700)**	**Current Liabilities**			**(267,482)**
-		(599)		Long Term Creditors	21	(265)	
(6,546)		(6,039)		Long Term Provisions	22	(7,669)	
(287,453)		(287,487)		Long Term Borrowing	15	(260,525)	
(1,185,433)		(708,229)		Liability relating to the defined benefit pension scheme	24	(867,443)	
(20,263)		(19,111)		Other Long Term Liabilities	15	(18,402)	
-		-		Donated Assets Account	38	-	
(54,030)		(82,876)		Capital Grants Receipts in Advance	38	(97,198)	
	(1,553,725)		**(1,104,341)**	**Long Term Liabilities**			**(1,251,502)**
	1,335,397		**1,795,645**	**Net Assets**			**1,538,921**
220,719		193,404		Usable Reserves	23	266,609	
1,114,678		1,602,241		Unusable Reserves	24	1,272,312	
	1,335,397		**1,795,645**	**Total Reserves**			**1,538,921**

These financial statements replace the unaudited statements certified by the Chief Finance Officer on 14th June 2012.

M Parsons
Director Resources & Performance
Date: 13th September 2012

3. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balances before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Note	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	**Total Usable Reserves** £000s	Unusable Reserves £000s	**Total Council Reserves** £000s
Balance at 31 March 2010		**32,146**	**115,718**	**19,250**	**53,605**	**220,719**	**1,087,190**	**1,307,909**
Opening Balance Adjustments at 1st April 2010	1						27,488	**27,488**
Restated Balance at 31 March 2010		**32,146**	**115,718**	**19,250**	**53,605**	**220,719**	**1,114,678**	**1,335,397**
Movement in reserves during 2010/11								
Surplus or (deficit) on the provision of services		144,516	-	-	-	**144,516**	-	**144,516**
Other Comprehensive Income and Expenditure		-	-	-	-	**-**	315,729	**315,730**
Total Restated Comprehensive Income and Expenditure		**144,516**	**-**	**-**	**-**	**144,516**	**315,729**	**460,245**
Adjustments between accounting basis & funding basis under regulations	7	(139,032)	-	(16,158)	(16,644)	**(171,834)**	171,834	**-**
Net Increase / (Decrease) before Transfers to Earmarked Reserves		**5,487**	**-**	**(16,158)**	**(16,644)**	**(27,315)**	**487,563**	**460,246**
Transfer to / from Earmarked Reserves	8	(19,347)	19,347	-	-	**-**	-	**-**
Increase / Decrease in 2010/11		**(13,860)**	**19,347**	**(16,158)**	**(16,644)**	**(27,315)**	**487,563**	**460,246**
Balance at 31 March 2011 carried forward		**18,286**	**135,065**	**3,092**	**36,961**	**193,404**	**1,602,241**	**1,795,645**
Movement in reserves during 2011/12								
Surplus or (deficit) on the provision of services		(196,072)				(196,072))		(196,072)**)**
Other Comprehensive Income and Expenditure							(60,649)	**(60,649)**
Total Comprehensive Income and Expenditure		**(196,072)**				**(196,072**)	**(60,649)**	**(256,721)**
Adjustments between accounting basis & funding basis under regulations	7	221,942	-	9,565	37,771	**269,278**	(269,278)	**-**
Net Increase / Decrease before Transfers to Earmarked Reserves		**25,870**	**-**	**9,565**	**37,771**	**73,206**	**(329,927)**	**(256,721)**
Transfer to / from Earmarked Reserves	8	(19,005)	19,005	-	-	**-**	-	**-**
Increase / Decrease in 2011/12		**6,865**	**19,005**	**9,565**	**37,771**	**73,206**	**(329,927)**	**(256,721)**
Balance at 31 March 2012 carried forward		**25,153**	**154,069**	**12,657**	**74,730**	**266,609**	**1,272,312**	**1,538,921**

Note: Some rounding's have occurred through the restatement of the Balance Sheet and Comprehensive Income & Expenditure Statement, which have been allowed to flow through the statements and notes, but have been corrected in the closing balances of the Movement in Reserves Statement above.

4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses the cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2010/11 Restated				2011/12	
£000s	£000s		Note	£000s	£000s
	144,517	Net surplus or (deficit) on the provision of services			(196,072)
118,875		Depreciation and impairment		257,815	
1,471		Amortisation		1,499	
(148)		Material impairment losses on Investments debited or credited on the provision of service in year		(560)	
33		Adjustments for effective interest rates		38	
(736)		Increase / decrease in impairment provision for bad debts		(736)	
(6,000)		Increase / decrease in interest creditors		13	
(16,777)		Increase / decrease in creditors		(6,057)	
(378)		Increase / decrease in interest and dividend debtors		(994)	
8,481		Increase / decrease in debtors		5,708	
(481)		Increase / decrease in stock		(217)	
(170,117)		Pension liability		3,917	
(9,041)		Contributions to / from Provisions		10,515	
(1,077)		Provision for Equal Pay		-	
65,588		Carrying amount of non-current assets sold		195,653	
74		Transfer of Deferred Capital receipts to the General Fund in relation to finance leases		-	
11,056		Carrying amount of short and long term investments sold		-	
2,098		Other non-cash items charged to the net surplus or deficit on the provision of services		-	
	2,921	Adjustments to net surplus or deficit on the provision of services for non cash movements			466,596
(75,164)		Capital Grants Credited to surplus or deficit on the provision of services		(171,875)	
(5,629)		Proceeds from short-term and long-term investments			
(16,044)		Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(10,493)	
	(96,836)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities			(182,368)
	50,605	Net cash flows from Operating Activities			88,157
	(33,430)	Investing Activities	26		(52,782)
	(7,323)	Financing Activities	27		6,001
	9,852	**Net increase or decrease in cash and cash equivalents**			41,376
	16,126	Cash and cash equivalents at the beginning of the reporting period			25,978
	25,978	**Cash and cash equivalents at the end of the reporting period**	**19**		**67,354**

Statement of Accounting Policies

This section explains the accounting policies that the Council has applied in preparing these accounts. The Statement of Accounts summarises the Council's transactions for the financial year 2011/12 and its position at the year end 31st March 2012. The statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice (SERCOP). The Council has adopted the historical cost accounting convention modified by the revaluation of certain types of Property, Plant and Equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Accounting Treatment for Schools

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

Voluntary Controlled Schools: Schools are owned by a charity but the Council is responsible for the running of the school, employing the staff and determining and administrating the admissions policy. The Council will sometimes own the freehold of the land and buildings, but the schools buildings are maintained and controlled by the respective charities and the Councils only statutory duty is for the playing fields. Based on substance over form, the Council has determined that it holds significant control and therefore that all the land and buildings and not just the playing fields will be recognised by the Council under Property, Plant and Equipment on the balance sheet of the Council.

Voluntary Aided Schools: Schools are owned and managed by a charity but the Council partially funds and also provides support services to the school. Although the Council will sometimes own the freehold of the land and buildings, the schools buildings are maintained and controlled by the respective charities and the Council's only statutory duty is for the playing fields. Hence it has been determined in conjunction with the Council's valuers that the playing field element of the schools premises will be recognised by the Council under Property, Plant and Equipment but that the building element fails the test of the Council holding significant control to allow them to be retained on the balance sheet of the Council. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided as Governors are the admissions authority and the Government controls the service and sets curriculum. IFRIC 4 has been deemed not to apply as the Council does not rely on the use of specific school to ensure sufficient schools available and hence the arrangement does not rely on specific assets.

Foundation Schools: Schools are owned and managed including the provision of any support services by the governing body, although funded by the Council. The Council is required to transfer all land and buildings including the playing fields to the Foundation School. As such the Council does not own and has derecognised the land and buildings from Property, Plant and Equipment within its balance sheet. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided as Governors are the admissions authority and the Government controls the service and sets curriculum. IFRIC 4 has been deemed not to apply as the Council does not rely on the use of a specific school to ensure sufficient schools available and hence the arrangement does not rely on specific assets.

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

Free Schools: Schools are established, owned and managed completely independently of the Council with funding provided directly by central government. The Council currently has no Free Schools.

Statement of Accounting Policies

Accruals of Income and Expenditure

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

In particular:

- The accounts are maintained on an accruals basis in accordance with the Code. The accounts are prepared on the basis of income being due and expenditure becoming payable in the financial year. This means that sums due to or from the Council during the year are included in the accounts whether or not the cash has actually been received or paid in that year. Any differences between the actual and accrued amounts will be reflected in the accounts of the following year.

- Income and expenditure are credited and debited respectively to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

- A debtor or creditor for the relevant amount is recorded in the Balance Sheet where income and expenditure have been recognised but cash has not been received or paid at the balance sheet date.

- Where it is doubtful that debts will be settled, provisions are made for bad and doubtful debts.

- Supplies and services are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services.

- Interest receivable on cash deposits and interest payable on borrowings are accounted for on the basis of the effective rate of interest for the relevant financial instrument rather than the cash flow fixed or determined by the contract. The amounts due or receivable at the year-end are included in the balance sheet in current assets and liabilities respectively.

Area Based Grants

In 2010/11 Area Based Grant (ABG) was a general grant allocated by central government directly to local authorities as additional revenue funding. As it was non ring-fenced it was credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. The Area Based Grant ended on 31 March 2011.

In 2011/12 elements of the Area Based Grant were rolled into Formula Grant, Early Intervention Grant and Local Services Support Grant which are non ring-fenced and have been credited to Taxation and Non-Specific Grant Income. Some elements were also rolled into Dedicated Schools Grant which is ring-fenced and credited to Services in the Comprehensive Income and Expenditure Statement.

Back Pay Arising From Unequal Pay Claims

Provision in accordance with the Code has been made for back pay relating to unequal pay arising from the implementation of the single status agreement. Central Government regulations provided discretion to authorities to defer charging unequal pay back pay expenditure or social security costs or other costs incurred by the Council in relation to the back payment to General Fund Balances, until the date on which the Council must pay the back payment have been applied. To the extent that a difference existed between the amount that the Authority charged to the General Fund and the amount actually paid out, an amount was set aside as an Equal Pay Reserve. All payments were finalised in 2011/12 and so this reserve ended the year at zero.

Capital Accounting Accounts

These comprise of:-

- the Revaluation Reserve which represents the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets analysed on an individual asset basis.

- the Capital Adjustment Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on non-current assets, provision for the repayment of external loans and the reversal of amounts included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the movement on the General Fund Balance for the year.

The above accounts are not available to fund future expenditure.

Capital Receipts

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

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

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

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

Carbon Reduction Commitment Scheme (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. The cost of the scheme is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is accrued in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Cash and Cash Equivalents

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

Charges to Revenue for Non-current Assets

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

- depreciation attributable to property, plant & equipment used in service delivery
- amortisation of intangible assets used in service delivery
- impairment losses due to consumption of economic benefits on intangible assets and property, plant & equipment used in service delivery and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

Depreciation provided on surplus assets is charged to Non Distributed Costs.

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 either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisation charges are therefore reversed and replaced by a revenue provision for debt repayment in the Movement on Reserves Statement. These adjusting entries are reflected in the Capital Adjustment Account.

Contingent Assets and Contingent Liabilities

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

Council Tax (Collection Fund Income)

From the year commencing 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement on Reserves Statement.

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

The Council recognises creditors for cash received from billing authorities in advance of the billing authority receiving the cash from Council Tax payees along with its share of any prepayments or overpayments made by Council Tax payees.

Employee Benefits

Benefits payable during employment
Benefits payable during employment cover short-term employee benefits, which are those due to be settled within twelve months of the end of the reporting period and other employee benefits (other than termination benefits) that are due to be settled later than twelve months after the end of the reporting period. Short-term employee benefits include wages, salaries and social security contributions, compensated absences and non-monetary benefits, such as flexi-time.

Compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be accumulating or non-accumulating. Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. Annual leave, flexi-time and time in lieu are usually accumulating absences. Accumulating absences may be either vesting or non-vesting. Where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement. Where non-vesting, benefits lapse if an employee leaves before the vesting date.

The Government has issued regulations that mean the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account

Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. The cost of non-accumulating compensated absences is recognised when the absences occur. The cost of providing non-monetary benefits is recognised according to the same principles as benefits payable in cash. The amount recognised as a liability and an expense is the cost to the employer of providing the benefit.

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

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

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

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

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

As termination benefits do not provide the Council with any future economic benefits or service potential they are always immediately posted as an expense in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement when the liability is recognised. The anticipated future savings expected to arise for the Council as a result of a termination do not provide an accounting justification for spreading the expense across future years.

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

Estimation Techniques

The accounting policy specifies the basis on which an item is measured. However where there is uncertainty over the monetary amounts corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves the amount is arrived at using an estimation technique that most closely reflects the economic reality of the transaction.

Events After The Balance Sheet Date

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

Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items are included in the cost of the service to which they relate when to do so would not distort the service expenditure. Otherwise they would be disclosed on the face of the Comprehensive Income and Expenditure Statement after ordinary activities of the Council. The Code prohibits the treatment of any items of income or expense as ‘extraordinary’, therefore the Council accommodates all items within one of the specified lines of the Surplus or Deficit on the Provision of Services or the Other Comprehensive Income and Expenditure. Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Prior period adjustments, if material, would be accounted for by restating comparative figures for the preceding accounting period.

Financial Instruments – Assets

Loans and Receivables

Loans and receivables have fixed or determinable payments and are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement as the amount receivable for the year in the loan agreement.

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

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

Financial Instruments – Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

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

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

The Council is not aware of any position where it has acted as guarantor in relation to the issue of a financial instrument. If the Council were to issue any such guarantee in the future it would be required to recognise such a liability at fair value. Fair value would be estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee. Such recognition at fair value would impact on the Council's general fund balances.

Foreign Currency transactions

Where transactions have taken place in a foreign currency, these are recorded in the accounts at the exchange rate applicable at the time of the transaction. Investments held by the Council in foreign currencies, outstanding at the balance sheet date, are revalued at the spot exchange rate applicable at that date. Any movement in value is taken to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure account, as a gain or loss.

The Council holds balances in Escrow accounts in Icelandic Kroner, comprising the value of Icelandic investments repaid in that currency and held in Iceland pending the resolution of foreign exchange controls.

Grants and Contributions

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

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

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

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

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

In relation to capital grants or contributions recognised as income in the Comprehensive Income and Expenditure Statement, where the expenditure has not been incurred at the Balance Sheet date, the grant recognised as income is transferred to Usable Reserves (Capital Grants Unapplied Account) representing capital resources not yet utilised. The transfer from the General Fund is recorded in the Movement in Reserves Statement. When expenditure is subsequently incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account. This transaction represents the application of capital resources to finance the expenditure incurred and is reported in the Movement in Reserves Statement for these Reserves or in the notes to the accounts.

Group Accounts

The Council accounts for these interests primarily as expenditure or income through the Consolidated Income and Expenditure account (for example as grant awards, contract payments in return for services or income collected on behalf of the Council). There is one organisation in which the Council has an investment (Exemplas Ltd), but this is of an immaterial value (£1) and therefore is not disclosed on the balance sheet but covered in the Investment in Companies note to the accounts.

The Council accounts for these interests primarily as expenditure or income through the Consolidated Income and Expenditure account (for example as grant awards, contract payments in return for services or income collected on behalf of the Council). There are three organisations in which the Council has an investment. These are Exemplas Ltd, Surecare Supplies Ltd and the Young Herts PFI scheme (comprised of three companies), but these are immaterial in value (£1, £10k, and £220 respectively). The investment in Surecare Supplies Ltd is recognised on the Balance Sheet as an unquoted equity investment shown at cost and the other investments in Exemplas and the PFI companies are not recognised. These investments are disclosed in Note 51 - Investments in Companies.

Heritage Assets

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

Paintings
Artefacts
Sculptures

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

The Council has not been able to determine a cost or valuation for its Record Office documents known as Hertfordshire Archives and Local Studies (HALS). HALS is treated as part of the Council's library assets. Whilst these maybe of interest to a historian, it has not been possible to obtain an insurance valuation and there are no recorded costs for the collection of documents, accordingly HALS is not reported in the balance sheet.

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

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

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

Intangible Assets

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

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

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

An intangible asset with an indefinite life is not amortised, but is tested for impairment annually, and whenever there is an indication the asset may be impaired. The useful life of the asset is reviewed annually.

Investment Property

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

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

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

Inventories

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

Joint Ventures

A joint venture is a contractual or binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. There are three broad types of forms and structures that meet the definition of joint ventures:

- Jointly controlled entity – a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity.

  An interest in a jointly controlled entity is consolidated in group accounts using proportionate consolidation or the equity method, unless the interest is not considered material.

- Jointly controlled operations – the operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the provision of the joint services and any expenses incurred in common are shared among the venturers.

  In respect of jointly controlled operations, the Council recognises the assets that it controls and the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the provision of the joint services. Group accounts are not produced where the Council has an interest in a jointly controlled operation.

- Jointly controlled assets – some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits and service potential through its share of the jointly controlled asset. Group Accounts are not produced where the Council has an interest in jointly controlled assets.

Landfill Allowance Schemes

The Landfill Allowance Trading Scheme began on 1 April 2005 and will operate for a 15 year period to 31 March 2020. The Department for Environment, Food and Rural Affairs (DEFRA) has allocated tradable landfill allowances to each waste disposal authority in England.

If the Council were to landfill waste in excess of its allowance it would need to:

- apply unused allowances brought forward; or
- buy the additional allowances required from another waste disposal authority; or
- with agreement, bring forward allowances from the following year; or
- pay a financial penalty to DEFRA

Any unused allowances as at 31 March 2012 can be sold to another waste disposal authority in respect of the scheme year 2011/12.

Allocated landfill allowances are shown as current assets. The liability for the current financial year in respect of waste disposed to landfill is reflected in provisions. Surplus allocated allowances, should they have a market value, are shown within specific reserves. Currently the Council has assessed the landfill allowances as having no value.

Leases

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

The Council as lessee

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

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

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

The Council as lessor

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

Operating leases - Items of property, plant and equipment let out under operating leases are presented according to the nature of the asset. Income from operating leases is recognised on a straight-line basis over the lease term. The depreciation policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

Arrangements that may contain a lease

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

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

Long Term Contracts

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

Non-Current Assets Held for Sale

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

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

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

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

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

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

Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service with the exception of costs relating to the Corporate and Democratic Core and Non Distributed Costs which have been identified in accordance with the Service Reporting Code of Practice and are shown as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

Private Finance Initiative schemes (PFI)

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

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

PFI liability

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

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

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

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

Lifecycle replacement

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

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

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

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

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

Property, Plant and Equipment

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

Recognition

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

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

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

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

Category of expenditure	De-minimis level
Property, integrated plant & equipment, and infrastructure (excluding schools)	£10,000
Vehicles, plant and equipment	£5,000
School's capital projects funded or supported by formula capital grants (see Note)	£2,000
Acquisition of furniture & fittings, which when grouped for a single project, exceeds the de minimis limit	£5,000
• HCC Assets	£5,000
• Schools	£2,000

Note: No de-minimis level exists for the purchase of ICT equipment using Devolved Formula Capital in Schools.

<u>Measurement</u>

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

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

Type of Asset	Basis of Valuation
Infrastructure Community Assets Assets Under Construction	Depreciated historical cost
Other Land & Buildings Vehicles, Plant, Equipment and Furniture	Fair value based on existing use value (EUV). Depreciated replacement cost (DRC) if EUV cannot be determined
Surplus Assets	Fair value based on existing use value
Investment Property	Market value
Assets Held For Sale	Market value

Land and buildings are revalued at intervals of no more than five years. Valuations are undertaken on a rolling basis by professionally qualified valuers. Revaluations also take place when there has been a significant change to the asset (e.g. major building works).

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

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

Impairment

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

If there has been an impairment loss, the asset is written down to its recoverable amount. The impairment loss is charged to the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement in Reserves Statement, to the extent that it does not exceed the amount in the Revaluation Reserve for the same asset and, thereafter, to the Surplus or Deficit on the Provision of Services.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the carrying amount that would have been determined had there been no initial impairment loss. Any excess of the impairment loss reversed above this carrying amount is charged to the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement in Reserves Statement.

Depreciation

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

The depreciation charge is based on the depreciable amount allocated over an asset's useful life. The methods of depreciation that reflect the pattern in which the future economic benefits or service potential of different assets are expected to be consumed, are determined as follows:

- Buildings: Straight-line allocation over the life of the property, generally between 10 and 100 years;
- Vehicles, plant and equipment: Straight line allocation over the life of the asset generally between 3 and 30 years;
- Infrastructure: Straight-line allocation over the life of the asset generally between 8 and 60 years.

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

The residual value of an item of property, plant and equipment, its useful life and depreciation method are reviewed at least at each financial year end and, if expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate.

Derecognition

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

Componentisation:

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

The Council has determined that only buildings over £1m are subject to componentisation and these are assessed against 3 components determined by the valuers, namely: -

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

In addition, a component is only separately identified if it represent 20% or greater of the total asset value. The balance of the cost of the total asset not assigned to components is held against the Main Structure and subject to depreciation over 10 to 100 years.

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

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

Provisions

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

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

Post-Employment Benefits

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

- Teachers - this is an unfunded scheme administered by the Teachers Pension Agency (TPA). The pension cost charged to the accounts is the contribution rate set by the TPA on the basis of a notional fund. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as a defined contribution scheme, that is, no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to the TPA for the year.
- Uniformed Fire Fighters - this scheme is unfunded. With effect from 1 April 2006 the Council pay an employer's pension contribution based on a percentage of pay into the Firefighter's Pension Fund. The Pension Fund will be balanced to nil at the end of the year through a cash settlement with central government.
- Other employees - subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The Council pay an employer contribution rate of a percentage of pensionable pay.

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

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

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

- quoted securities – current bid price
- unquoted securities – current bid price
- unitised securities – current bid price
- property – market value

The change in the net pension's liability is analysed into the following components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- employer contributions paid to the pension funds
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of 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 – debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuary has updated previous assumptions – debited or credited as Other Comprehensive Income and Expenditure.

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

Revenue

Revenue is the gross inflow of economic benefits from services provided during the reporting period. Revenue is recognised when and to the extent that performance occurs and is measured at the fair value of the consideration received or receivable

Revenue Expenditure Funded from Capital under Statute

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

Specific Reserves

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

Value Added Tax

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

Notes to the Accounts

Note 1. Restatement and Change in Accounting Policies

Opening Balance Sheet as at 1 April 2010

Note 1.2 follows the restated Balance Sheets and Comprehensive Income & Expenditure Statement within Note 1 detailing the adjustments below.

1 April 2010		Adjustments	Note		1 April 2010 Restated	
£000s	£000s	£000s			£000s	£000s
2,911,308		-		Property, Plant & Equipment	2,911,308	
-		-		Investment Property	-	
-		27,488	1.2	Heritage Assets	27,488	
5,230		-		Intangible Assets	5,230	
-		-		Assets Held for Sale	-	
28,646		-		Long Term Investments	28,646	
24,647		-		Long Term Debtors	24,647	
	2,969,831	**27,488**		**Long Term Assets**		**2,997,319**
7,492		-		Short Term Investments	7,492	
3,002		-		Assets Held for Sale	3,002	
3,770		-		Inventories	3,770	
103,379		-		Short Term Debtors	103,379	
16,126		-		Cash and Cash Equivalents	16,126	
	133,769	**-**		**Current Assets**		**133,769**
-		-		Bank Overdraft	-	
(8,073)		-		Short Term Borrowing	(8,073)	
(1,020)		-		Short Term Liabilities	(1,020)	
(198,575)		-		Short Term Creditors	(198,575)	
(2,015)		-		Amounts owed to HPA	(2,015)	
(22,384)		-		Provisions for Accumulated Absences	(22,384)	
(9,899)		-		Short Term Provisions	(9,899)	
	(241,966)	**-**		**Current Liabilities**		**(241,966)**
-				Long Term Creditors	-	
(6,546)		-		Provisions	(6,546)	
(287,453)		-		Long Term Borrowing	(287,453)	
(1,185,433)		-		Liability relating to the defined benefit pension scheme	(1,185,433)	
(20,263)		-		Other Long Term Liabilities	(20,263)	
-		-		Deferred Government Grants	-	
-		-		Donated Assets Account	-	
(54,030)		-		Capital Grants Receipts in Advance	(54,030)	
	(1,553,725)	**-**		**Long Term Liabilities**		**(1,553,725)**
	1,307,909	**27,488**		**Net Assets**		**1,335,397**
220,719		-		Usable Reserves	220,719	
1,087,190		27,488	1.2	Unusable Reserves	1,114,678	
	1,307,909	**27,488**		**Total Reserves**		**1,335,397**

Balance Sheet as at 31 March 2011

Notes 1.1 & 1.2 follow the restated Balance Sheets and Comprehensive Income & Expenditure Statement within Note 1 and explain the adjustments below. References to other notes indicate where the figures for values at 31 March 2011 appear elsewhere in the accounts as comparators to the values at 31 March 2012.

31 March 2011		Adjustments	Note		31 March 2011 Restated	
£000s	£000s	£000s			£000s	£000s
2,946,215		(60,496)	1.1 / 12	Property, Plant & Equipment	2,885,719	
-		-	12	Investment Property	-	
		27,488	1.2 / 13	Heritage Assets	27,488	
4,477		-	14	Intangible Assets	4,477	
-		-	20	Assets Held for Sale	-	
9,121		-	15	Long Term Investments	9,121	
21,694		-	18	Long Term Debtors	21,694	
	2,981,506	**(33,008)**		**Long Term Assets**		**2,948,498**
17,570		-	15	Short Term Investments	17,570	
345		-	20	Assets Held for Sale	345	
4,250		-	16	Inventories	4,250	
103,032		-	18	Short Term Debtors	103,032	
25,012			15	Financial Instruments Available for Sale	25,012	
25,978		-	19	Cash and Cash Equivalents	25,978	
	176,187	**-**		**Current Assets**		**176,187**
(2,985)		-	15	Short Term Borrowing	(2,985)	
(923)		-	15	Short Term Liabilities	(923)	
(195,697)		-	21	Short Term Creditors	(195,697)	
(2,424)		-	31	Amounts owed to HPA	(2,424)	
(15,375)		-	24	Provisions for Accumulated Absences	(15,375)	
(7,297)		-	22	Short Term Provisions	(7,297)	
	(224,701)	**-**		**Current Liabilities**		**(224,701)**
(599)			15	Long Term Creditors	(599)	
(6,039)		-	22	Long Term Provisions	(6,039)	
(287,487)		-	15	Long Term Borrowing	(287,487)	
(708,229)		-	24	Liability relating to the defined benefit pension scheme	(708,229)	
(19,111)		-	15	Other Long Term Liabilities	(19,111)	
-		-	38	Donated Assets Account	-	
(82,876)		-	38	Capital Grants Receipts in Advance	(82,876)	
	(1,104,341)	**-**		**Long Term Liabilities**		**(1,104,341)**
	1,828,654	**(33,008)**		**Net Assets**		**1,795,646**
193,405			23	Usable Reserves	193,405	
1,635,249		(33,008)	1.1/1.2 / 24	Unusable Reserves	1,602,242	
	1,828,654	**(33,008)**		**Total Reserves**		**1,795,646**

The restatement of the Comprehensive Income and Expenditure Statement for the year ended 31 March 2011 is below and shows the total difference between the opening Comprehensive Income and Expenditure Statement for the year ended 31 March 2011 presented in the 2010/11 audited financial statements and the equivalent 2010/11 comparative amounts presented in the 2011/12 financial statements under the CIPFA Code.

The adjustments shown below are explained further in Note 1.1

2010/11			Adjustments			2010/11 Restated		
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	Net Expenditure £000s		Note	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
402,103	(109,092)	293,011	-	Adult Social Care		402,103	(109,092)	293,011
5,489	(2,907)	2,581	-	Central service to the public		5,489	(2,907)	2,581
1,258,050	(1,013,733)	244,317	-	Children's & Education services		1,258,050	(1,013,733)	244,317
10,296	(5,036)	5,259	-	Corporate and Democratic core		10,296	(5,036)	5,259
30,984	(5,800)	25,184	-	Cultural & Related Services		30,984	(5,800)	25,184
49,317	(4,922)	44,395	-	Environmental & Regulatory Services		49,317	(4,922)	44,395
47,223	(1,703)	45,520	-	Fire and Rescue Services		47,223	(1,703)	45,520
96,564	(15,716)	80,848	-	Highways and transport services		96,564	(15,716)	80,848
23,944	(2,294)	21,650	-	Housing services		23,944	(2,294)	21,650
12,123	(7,981)	4,142	-	Non distributed costs		12,123	(7,981)	4,142
6,749	(1,796)	4,953	-	Planning Services		6,749	(1,796)	4,953
			-	Police Services				
1,164	(206,674)	(205,510)	-	Exceptional Items - Pension Costs	47	1,164	(206,674)	(205,510)
-	-	-	-	Exceptional Items – Academies	1	-	-	-
-	-	-	-	Exceptional Items - Icelandic Banks	43	-	-	-
1,994,006	**(1,377,656)**	**566,350**	**-**	**Cost of Services**		**1,994,006**	**(1,377,656)**	**566,350**
		(8,720)	60,496	Other Operating expenditure	9			51,776
		51,089	-	Financing and Investment Income & Expenditure	10			51,089
		-	-	(Surplus) or Deficit of Discontinued Operations	29			-
		(813,734)	-	Taxation and Non-Specific Grant Income	11			(813,734)
		(205,014)	**60,496**	**(Surplus) or Deficit on Provision of Services (A)**				**(144,518)**
		(8,642)	-	Surplus or Deficit on revaluation of Property, Plant and Equipment	23			(8,642)
		-	-	Surplus or Deficit on revaluation of available for sale financial assets	23			-
		(307,087)	-	Actuarial gains / loses on pension assets / liabilities	23			(307,087)
		(315,729)	**-**	**Other Comprehensive Income & Expenditure (B)**				**(315,729)**
		(520,744)	**60,496**	**Total Comprehensive Income & Expenditure (A+B)**				**(460,248)**

The following tables relate to the adjustments shown in the restated financial statements above. These are followed by an explanation of each of the changes that has necessitated these adjustments (heritage assets, property, plant & equipment and leases). It should be noted that only Note 12 and 41 have been affected by the restatement below.

1.1 Property, Plant & Equipment

During the review of school assets in 2011/12, three schools were highlighted as having changed to foundation school status during 2010/11. This results in a restatement of the 31 March 2011 Balance Sheet and the 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts. The effects of the restatement are as follows:

At 31 March 2011 the carrying amount of the Property. Plant & Equipment has been adjusted to reflect the disposal of the schools, previously valued at £60.496m, and the capital adjustment account decreased by £60m. The fully restated 31 March 2011 Balance Sheet is provided on page 38. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Balance Sheet 31 March 2011

	As Previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Property, Plant & Equipment	2,946,215	2,885,719	(60,496)
Long-term Assets	**2,981,506**	**2,921,010**	**(60,496)**
Total Net Assets	**1,828,654**	**1,768,158**	**(60,496)**
Unusable Reserves	(1,635,249)	(1,574,753)	60,496
Total Reserves	**(1,828,654)**	**(1,768,158)**	**60,496**

Comprehensive Income and Expenditure Statement
During 2010/11 the disposal of the schools resulted in the following restatement of lines of the Comprehensive Income and Expenditure Statement.

	As Previously stated for year ending 31 March 2011 £000s	As restated for year ending 31 March 2011 £000s	Restatement 2011 £000s
Other Operating expenditure (net)	(8,720)	51,776	60,496
(Surplus) or Deficit on Provision of Services	**(205,014)**	**(144,518)**	**60,496**
Total Comprehensive Income & Expenditure	**(520,744)**	**(460,248)**	**60,496**

Movement in Reserves Statement – Usable Reserves 2010/11
The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011 is presented in the table below.

	As Previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Balance at 31st March 2010	**220,719**	**220,719**	**-**
Surplus or (deficit) on provision of services	205,014	144,518	60,496
Total Comprehensive Income & Expenditure	**520,744**	**460,248**	**60,496**
Adjustments between accounting basis & funding basis under regulations	(232,328)	(171,832)	(60,496)
Net Increase/decrease before transfers to earmarked reserves	**(27,314)**	**(27,314)**	**-**
Increase/(decrease) in 2010/11	**(27,314)**	**(27,314)**	**-**
Balance as at 31 March 2011 carried forward	**193,405**	**193,405**	**-**

Movement in Reserves Statement – Unusable Reserves 2010/11
The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011 is presented in the table below.

	As Previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Balance at 31st March 2010	**1,087,190**	**1,087,190**	**-**
Adjustments between accounting basis & funding basis under regulations	232,328	171,832	60,496
Net Increase/decrease before transfers to earmarked reserves	**548,058**	**487,562**	**60,496**
Increase/(decrease) in 2010/11	**548,058**	**487,562**	**60,496**
Balance as at 31 March 2011 carried forward	**1,635,249**	**1,574,753**	**60,496**

1.2 Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the Council. The Council now requires heritage assets to be carried in the balance sheet at valuation. For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Council did not recognise any Community Assets. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Statement of Accounting Policies above.

In applying the new accounting policy, the Authority has recognised heritage assets measured at £27.488 million with a corresponding increase in the Revaluation Reserve. These assets relate to the Council's collection of paintings, sculptures and artefacts, all of which were not previously recognised in the Balance Sheet. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation of £27.5 million, and the revaluation reserve has increased by £27.5 million. The fully restated 1 April 2010 Balance Sheet is provided on page 38. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening balances as at 1 April 2010 £000s	Restatement £000s	Restatement required to opening balances as at 1st April 2010 £000s
Heritage Assets	-	27,488	27,488
Long-term Assets	**2,969,831**	**27,488**	**2,997,319**
Total Net Assets	**1,307,909**	**27,488**	**1,335,397**
Unusable Reserves	(1,087,190))	(27,488)	(1,114,678)
Total Reserves	**(1,307,909)**	**(27,488)**	**(1,335,397)**

Comprehensive Income and Expenditure Statement
During 2010/11 and 2011/12 there were no acquisitions, disposals or impairments of heritage assets. There has thus been no restatement of any of the lines of the Comprehensive Income and Expenditure Statement.

Movement in Reserves Statement – Unusable Reserves 2010/11
The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As Previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Balance at 31 March 2010 carried forward - Unusable Reserves	1,087,190	27,488	1,114,678
Balance at 31 March 2010 carried forward Total Reserves	**1,307,909**	**27,488**	**1,335,397**
Balance at 31 March 2011 carried forward - Unusable Reserves	1,635,249	27,488	1,662,737
Balance at 31 March 2011 carried forward Total Reserves	**1,828,654**	**27,488**	**1,856,142**

Effect on Balance Sheet 31 March 2011

	As Previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Heritage Assets	-	27,488	27,488
Long-term Assets	**2,981,506**	**3,008,994**	**27,488**
Total Net Assets	**1,828,654**	**1,856,142**	**27,488**
Unusable Reserves	(1,635,249)	(1,662,737)	(27,488)
Total Reserves	**(1,828,654)**	**(1,856,142)**	**(27,488)**

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £27.5 million on the Balance Sheet resulting in an increase to the Revaluation Reserve of £27.5 million.

1.3 Operating Leases: Change in declared comparatives for 2010/11

Further investigation during 2011/12 has identified a number of land and building leases omitted from the 2010/11 Financial Statements and some leases whose annual payment values had increased following rent reviews and not been reflected.

Where the Council is the lessee the key property leases identified in this year's review but omitted previously are:

- Network House (Aspley) at £965K per annum to October 2020;
- Mundells at Welwyn Garden City at £953K per annum to May 2030;
- Kings Court Stevenage at £190K per annum to March 2016;
- Hertford House, Stevenage at £86K per annum to November 2019; and
- Centenary House, Hitchin at £78K per annum to May 2026.

This results in a restatement of the future minimum lease payments due under non-cancellable leases in future years in Note 41 where the Council acts as lessee as follows:

	As Previously stated 31 March 2011 £000s	Restatement £000s	As Restated 31 March 2011 £000s
Not later than one year	2,814	2,641	5,454
Later than one year and not later than five years	4,837	10,278	15,115
Later than five years	3,294	20,556	23,849
	10,944	**33,474**	**44,418**

Where the Council is the lessor the restatement is mainly due to the following:

- Conclusion of the rent review for the properties let to Quantum Care due in July 2009 being agreed in 2011/12 with an annual increase of £630K; and
- The inclusion within the values shown of the net income of £1.1million relating to the rental income and expenditure for Robinson House and Farnham House when applying SIC27, as highlighted last year.

This results in a restatement of the future minimum lease payments due under non-cancellable leases in future years in Note 41 where the Council acts as lessor as follows:

	As Previously stated as at 31 March 2011 £000s	Restatement £000s	As Restated at 31 March 2011 £000s
Not later than one year	4,039	1,545	5,584
Later than one year and not later than five years	15,178	5,237	20,415
Later than five years	113,621	9,631	123,252
	132,838	**16,413**	**149,251**

Comprehensive Income and Expenditure Statement

The costs of these Land & Building leases where the Council is the lessee were included and charged to the Comprehensive Income and Expenditure Statement during 2010/11 hence no adjustment is required to the core statements. The restatement is therefore limited to the comparatives within Note 41, which should have identified the expenditure charged in relation to these leases as £3,405k rather than the previously stated £737k an additional £2,668k.

Note 2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

IFRS 7 Financial Instruments: Disclosures (transfers of financial assets) has been amended and these changes in disclosure requirements will be reflected in the 2012/13 financial statements, in accordance with IFRS 7. The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period.

The Council do not transfer financial instruments so anticipate no changes or restatement will be required as a result of adopting this standard in 2012/13.

Note 3. Critical Judgements in Applying Accounting Policies

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

- **Icelandic Bank Deposits:** The Council held deposits totalling £28m with Icelandic banks that defaulted on their obligations in October 2008. Since then the value of these deposits has been adjusted in the accounts, to reflect such repayments as have been received, and with the impairment value calculated in accordance with CIPFA guidance (LAAP Bulletin 82). Calculations in 2009/10 were made according to update 2 (May 2010); with adjustments for update 3 (September 2010) being determined as not material. The calculations for 2010/11 are based on the latest CIPFA guidance update 4 released in May 2011 with adjustments for update 5 in September 2011, which were similarly not material. Calculations for 2011/12 are based on the latest CIPFA guidance issued in May 2012. In October 2011 the Icelandic Supreme Court upheld the priority status of deposits held by UK local authorities and other UK wholesale depositors, and initial distributions have been received from Glitnir and Landsbanki HF. Further distributions depend in part on Iceland's currency control laws, and the winding up boards continue to pursue the distribution of investments held in Icelandic Kroner and other currencies. The administrators for the other failed banks Heritable Ltd and Kaupthing Singer & Friedlander Ltd, under UK administration, continue to make distributions in the form of dividends and the expectations of recovery for these two banks are also at the top end of estimations by CIPFA. Further guidance was expected with respect to Landsbanki HF but to date this has not been received.

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

  As detailed in the 2010/11 financial statements, the decision was taken to classify leases of care homes from the Council to Quantum Care as operating leases. This is viewed as a critical judgement, given the classification as a finance lease would have resulted in the de-recognition of a large number of assets. This means that assets are retained on the Council's Balance Sheet even though they are leased to Quantum Care on a long-term basis. This is because the lease of the properties is tied up with the provision of services by Quantum and so is not intended to transfer benefits of ownership, only to secure best value from service contracts.

- **Exemplas:** Judgement was made that the holding in Exemplas Ltd is only worth its nominal value, that is to say that there no inherent value in the stake because of the conditions and restrictions attached to it. Whilst the Council has not recognised a group relationship with Exemplas, there is potential for future income.

- **Heritage Assets:** Judgement was made that the Council would use insurance valuations as an appropriate and relevant valuation for heritage assets. These valuations were carried out and verified by external valuers Townley Valuation Services (TVS), except for its Record Office documents known as Hertfordshire Archives and Local Studies (HALS) where a cost or valuation could not be determined.

Note 4 Assumptions Made About the Future and Other Major Sources on Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The Council has Property, Plant and Equipment with a Net Book Value of £2,686.0 million on the Balance Sheet as at 31st March 2012, with £78.235 million charged as depreciation during the year.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.457 million and for VPFE would increase by approximately £1.081 million for every year that useful lives had to be reduced.
Financial Instruments	The Council had £28 million invested in Icelandic banks which went into administration early in October 2008. All monies within these institutions are currently subject to the respective administration and receivership processes, which determine the amounts and timings of payments to depositors include the Council. Although the accounts reflect the latest creditor reports for each institution or verdicts per the Reykjavik District Court, as the available information is not definitive regarding the amounts and timings of payments, it is likely that further adjustments will be made to the accounts in future years.	The effect if the actual results differ is not possible to estimate due to the dependency on court verdicts and administrator adjustments.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The liability estimated as at 31st March 2012 was £867.443 million.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £150.289 million.

Note 5 Material Items of Income and Expense

The following items have been included as part of the Comprehensive Income and Expenditure Statement but have not been disclosed separately:

Services Expenditure:

The Council make contributions into the Joint Commissioning Pooled Budget in relation to Social Care for Working Age Mental Health Services (including Drugs and Alcohol) totalling £18.4m, which is included within Adult Social Care.

The Council make contributions into the pooled budget for Community Wellbeing/Preventative Services totalling £12m, which is also included within Adult Social Care.

County-wide block homecare is provided by Saga (previously Goldsborough). Block homecare providers have a level of minimum guaranteed hours, which for Saga in 2011/12 was 364,500 hours per year (Goldsborough in 2010/11 was 405,000 hours). The average price paid for homecare is £16.88 per hour (calculated as used for charging). This means that the minimum payment to Saga in 2011/12 would be £6.1m (Goldsborough in 2010/11 was £6.8m). Actual payments were more than this as their rate is higher than average, current commissioned hours are more than block (due to unavailability of other providers in certain areas) and provision of an Enablement homecare contract. All other homecare blocks relate to individual areas and therefore the value of their guaranteed minimum hours would be less than £5m.

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

- Amey LaFarge Ltd for the provision of highway maintenance works £25.7m;
- SERCO Plc for the provision of a range of support services £16.6m;
- Waste Recycling Group Ltd for the provision of waste recycling services £14.1m;
- Mouchel Parkman Ltd for the provision of highway design and site supervision services £5.3m;
- Arriva The Shires Ltd for the provision of supported bus services including concessionary fares £9.1m.

Academy conversions

As a result of a number of schools converting to both Academy Status during 2011/12 a transfer of assets under both IAS 17 and IAS 16a was made. The Council has, by way of 125 year leases, let £180 million of Land & Property relating to the conversion to Academies. As these academy leases have been assessed as finance leases International Accounting Standards require these assets are also removed from the Council's accounts and this has been done on the basis that the Council has received no cash for this transfer.

Exceptional Item - Academies

During 2011-12 a significant number of schools converted to academy status. On conversion the schools balances were transferred to academies. Although the transfer of these balances constitutes expenditure by the authority, this has only occurred due to the change of these school's status, therefore the accrued balances of the schools on the date of conversion excluding any capital grant held by the schools has been treated in the accounts as an exceptional item of expenditure.

Note 6 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Resources and Performance on 13th September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date, provided information about conditions existed at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no material events after the reporting date, which require to be taken into account in the financial statements.

Note 7 Adjustment between Accounting Basis and Funding Basis under Regulations

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

2010/11 Restated	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	**£000s**	**£000s**	**£000s**
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Opening Balance Adjustments for Property, Plant & Equipment	1,613	-	-	(1,613)
Charges for depreciation and impairment of non current assets	118,874	-	-	(118,874)
Opening Balance Restatement for Revaluation losses on Property, Plant and Equipment	-	-	-	-
Movement in the market value of Investment Properties	-	-	-	-
Amortisation of intangible assets	1,471	-	-	(1,471)
Capital grants and contributions	(73,902)	-	-	73,902
Movement in the Donated Assets Account	-	-	-	-
Revenue expenditure funded from capital under statute	5,224	-	-	(5,224)
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	65,588	-	-	(65,588)
Use of Capital Reserves (Earmarked Reserves) to finance expenditure	(20,385)	-	-	20,385
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(26,047)	-	-	26,047
Capital expenditure charged against the General Fund balance	(9,556)	-	-	9,556
Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(2,895)	-	2,895	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(18,011)	18,011
Repayment of Grant	1,633	-	(1,633)	-
Interest Allocation	(105)	-	105	-
Adjustment involving the Capital Receipts Reserve				
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(16,044)	16,044	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(33,867)	-	33,867
Adjustment to Capital Receipts Reserve re: St Marys	-	1,665	-	(1,665)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-
Capital receipts accrued in year	-	-	-	-

2010/11	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
Adjustments involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Transfer of deferred sale proceeds to the general fund in relation to Finance Leases	74	-	-	(74)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(157)	-	-	157
Value of impairment on Icelandic investments charged to the Financial Instruments Adjustment Account in previous years and transferred to the General Fund in 2010/11, in accordance with statutory requirements	(5,155)	-	-	5,155
Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements	33	-	-	(33)
Soft Loans	(81)	-	-	81
Adjustments involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(98,699)	-	-	98,699
Employer’s pensions contributions and direct payments to pensioners payable in the year	(71,418)	-	-	71,418
Adjustments involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(1,012)	-	-	1,012
Adjustment involving the Unequal Pay Back Pay Adjustment Account				
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(1,077)	-	-	1,077
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(7,009)	-	-	7,009
Total Adjustments	**(139,032)**	**(16,158)**	**(16,644)**	**171,834**

2011/12	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Opening Balance Adjustments for Property, Plant & Equipment				
Charges for depreciation and impairment of non current assets	257,815			(257,815)
Opening Balance Restatement for Revaluation losses on Property, Plant and Equipment				
Movement in the market value of Investment Properties				
Amortisation of intangible assets	1,499			(1,499)
Capital grants and contributions	(77,998)			77,998
Movement in the Donated Assets Account				
Revenue expenditure funded from capital under statute	4,417			(4,417)
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	195,653			(195,653)
Use of Capital Reserves (Earmarked Reserves) to finance expenditure	(17,310)			17,310
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(25,315)			25,315
Capital expenditure charged against the General Fund balance	(25,242)			25,242
Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(93,878)		93,878	
Application of grants to capital financing transferred to the Capital Adjustment Account			(53,777)	53,777
Repayment of Grant				
Interest Allocation	2,330		(2,330)	
Adjustment involving the Capital Receipts Reserve				
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(10,493)	10,493		-
Use of the Capital Receipts Reserve to finance new capital expenditure		(928)		928
Adjustment to Capital Receipts Reserve re: St Marys				
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				
Capital receipts accrued in year				

2011/12	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
Adjustments involving the Deferred Capital Receipts Reserve				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
Transfer of deferred sale proceeds to the general fund in relation to Finance Leases	78			(78)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement				
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(157)			157
Value of impairment on Icelandic investments charged to the Financial Instruments Adjustment Account in previous years and transferred to the General Fund in 2010/11, in accordance with statutory requirements				
Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements	38			(38)
Soft Loans	(68)			68
Adjustments involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	68,073			(68,073)
Employer's pensions contributions and direct payments to pensioners payable in the year	(64,156)			64,156
Adjustments involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(126)			126
Adjustment involving the Unequal Pay Back Pay Adjustment Account				
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements				
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6,782			(6,782)
Total Adjustments	**221,942**	**9,565**	**37,771**	**(269,278)**

Note 8 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

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

- School Balances - underspends carried forward from schools delegated budgets.
- Strategic Area Partnership - to finance the provision of new learning opportunities to deliver the learner entitlement for 14 to 19 year olds.
- Community Focused Extended School Activities - balances carried forward by schools relating to community focused activities.
- Supply Sickness Scheme - pooled arrangement to which schools can choose to subscribe, administered on behalf of the schools by the Council.
- Schools Budget Central Expenditure - previous underspend against the central expenditure budgets within the Schools Budget. This will be used to finance the Council's Schools Budget in future years, in line with the requirements of the Dedicated Schools Grant.
- Academy Conversion Reserve - to finance the planning and legal costs associated with Academy conversions as the number of schools converting escalates.
- Campus Reprovision Reserve - to support transition and other related revenue costs incurred as a result of people with Learning Disabilities moving from Campuses to housing in the community.
- Capital Payback - contributions from services in respect of approved capital programme projects in order to finance future capital expenditure.
- Capital Grants Unapplied Interest Reserve – interest earned on cash balances relating to funding held in the Capital Grants Unapplied Reserve (see Note 23 for details of this reserve)
- CCRAG Reserve - funding held on behalf of a partnership of 40 Local Authorities to improve outcomes for all children and young people, to be used for database development.
- Causeway Reprovision - to fund the reprovision of the Causeway building so that it can provide more effective services to service users.
- Childcare Litigation Reserves - reserves relating to the Childcare Litigation Unit.
- Children Schools & Families Service Reserve - surpluses within the education trading units of the Children, Schools & Families service.
- Community Transport Support Grant - to provide support for community transport and supported bus services in 2012/13.
- Commuted Maintenance - sums secured through development agreements to fund maintenance of specialist assets such as bridges and soak ways.
- Connect Digitally Reserve - reserve to meet the cost of the programme when it comes to completion.
- Corporate Carry Forwards - this relates to liabilities for 2010/11 in particular project savings from Shared Managed Services (SMS) which are loaded towards the back end of the contract creating a gap in 2011/12.
- County Council Elections - to meet the cost of elections to be held in May 2013.
- DCLG Planning Delivery Grant - support for the preparation of the waste core strategy and waste procurement programme.

- Education & Early Intervention Reserve - reserve to be used for education, support & intervention in Schools, Learning Centres and alternative education settings.

- Education Trading Section Carry Forwards - surpluses within the Education trading units.

- Enablement for Impower Reserve - HCC is committed to the Impower work. Funding provided by PCT to fund joint project with HCC to support intermediate care integration with HCC. Work will span two financial years.

- Energy & Water Conservation - to be applied to investment in energy and water saving measures.

- Fire & Rescue Reserve - Reserve to meet costs of new uniform, equipment and training for major incidents.

- FSS Surplus to SSE (formerly FSS Closing Balance) - a reserve relating to the surpluses from the Financial Services for Schools trading operation with schools. The balances are required to support further development of trading models in 2012/13

- Hadham Towers Restoration - to provide for essential restoration work to return the Hadham Towers Waste Disposal site to its original use as agricultural land when the tip is full.

- Harperbury Legal Costs- to meet the expected legal costs that the County Council has been ordered to pay.

- Hertfordshire Business Services (HBS) Repairs and Renewals - a reserve to cover the replacement and maintenance of equipment and the refurbishment of buildings.

- Hermis Development - to meet future expenditure incurred in the development of the Hermis software.

- Herts Music Service - Music Donations - a reserve was created to ring-fence donations made by parents and members of the public for the provision of music items.

- Herts Property Artwork - a reserve created from the sale of works of art that had been ring fenced to finance future Council Artwork.

- Highways maintenance - a reserve that was created to maintain an enhanced level of investment in highway maintenance

- IAPT Reserve- Pooled Department of Health funding to be used on Psychological Therapy schemes that have slipped in to 2012/13.

- Icelandic Bank Deposits - a reserve to provide for potential impairment of these deposits.

- Improvement East Payback Reserve – a reserve to provide for the paying back of funds for investment projects supplied by the Improvement East Partnership

- Invest to Transform - to support innovative projects across the Council that will underpin service transformation and deliver future efficiencies.

- LAMS reserve - The Local Authority Mortgage Scheme (LAMS) reserve holds funds set aside to support the Council's participation in the LAMS scheme which facilitates mortgage lending to eligible Hertfordshire residents

- LAA Performance Reward Grant - balance of grant carried forward to finance specific project expenditure which continues over a number of financial years.

- LAA Reward Grant Reserve - for investment in projects that will support the delivery of the Health and Wellbeing strategy.

- Leasehold Dilapidations - a reserve that met costs relating to repairs and maintenance occurring at leasehold premises under “The Way We Work” project.

- Learning and Development Grant Funding- relates to Academic year grant funding that will be used for the learning and development of Social Workers.

- Local Enterprise Partnership (LEP) Infrastructure Reserve -These funds are set aside to support the Local Enterprise Partnership infrastructure initiative, providing funding for schemes to develop Hertfordshire's economy and infrastructure

- Local Standards Verification - a reserve which covered the costs associated with the testing of Trading Standards Instruments.

- Local Enterprise Partnership Growing Places – this fund has been set aside to generate economic activity by addressing immediate infrastructure and site constraints thus empowering local enterprise partnerships. It is also meant to establish sustainable revolving funds so that funding can be reinvested to unlock further development, and leverage private investment.

- MMI Reserve - a specific reserve has been set up in recognition of the increased risk relating to the Municipal Mutual Insurance contingent liability

- New Roads & Street Works Act 1991 - income received from public utilities under Section 74 of the Act that must be spent on specific transport related activities.

- NNDR Revaluation Reserve - managed fluctuations associated with rateable values of the Council's properties.

- Private Finance Initiative (PFI) Equalisation Reserve - the excess of PFI credits over current expenditure levels carried forward to fund future obligations.

- Proceeds of Crimes Act (POCA) Receipts - Proceeds of Crimes Act held by the Council in respect of ongoing trading standards and SOCA court cases.

- Pooled Treatment Budget Reserve – funding awarded to the Strategic Commissioning Group for Drugs and Alcohol (which comprises HCC and the PCT) to be used on projects which span in to 2012/13.

- Recruitment Advertisement Rebates - was applied in part to finance the coordinated recruitment marketing work for all departments to improve the Councils standing as an employer of choice.

- Revenue Grants Carry-forwards - balances carried forward in relation to revenue grants treated as income in year which remained unspent at the balance sheet date.

- RSS Implementation & Investment Study LPSA - to provide the technical support to develop the community infrastructure levy in Hertfordshire.

- Safeguarding & Specialist Services - to be used to finance safeguarding vulnerable children.

- Salix - to provide for energy efficient changes and measures to reduce the cost of energy consumption.

- Social Care Reform Grant (SCRG) Reserve - funding to be used to finalise a number of transformation projects, with a focus on voluntary organisation preventative schemes.

- Shared Managed Services (SMS) Reserve - a reserve which met the costs of implementation of the SMS procurement.

- Self Insurance - a reserve to cover for uninsured liabilities in respect of employer's liability, third party insurance and potential costs incurred as a result of storm damage.

- Statutory Planning Authority Inquiries - to meet costs associated with attending public meetings as the Statutory Planning Authority.

- Strategic Planning - a reserve to deal with issues relating to strategic planning questions that will enable the Council to continue to fight to protect Hertfordshire's environment.

- Support for Memory Services- Funding provided by the Department of Health for Memory Services, some of which have slipped in to 2012/13.

- University Grants - a reserve for Care leavers, for whom HCC is corporate parent, who are going into high education and HCC are placing aside the amount they will need to repay their student loan.

- Warm Homes Grant - Grant funding for initiatives relating to keeping vulnerable people warm and well. Some of the projects have slipped in to 2012/13.

- Waste PFI Reserve - to deal with a range of risks which could result from this complex PFI project

- Winter Pressures Reserve - additional resource from Department of Health, for Local Authorities and PCT's to work together and reach joint agreement on investment in Adult Social Care.

Balance at 1 April 2010	*Transfers Out 2010/11*	*Transfers In 2010/11*	**Net Transfers during 2010/11**	**Balance at 31 March 2011**		Capital (C) or Revenue (R)	Balance at 1 April 2011	*Transfers out 2011/12*	*Transfers in 2011/12*	**Net Transfers during 2011/12**	**Balance at 31 March 2012**
36,089	-	*1,192*	**1,192**	**37,281**	Schools Balances	R	**37,281**	-	*10,409*	**10,409**	**47,690**
2,869	*(189)*	-	**(189)**	**2,680**	Strategic Area Partnership	R	**2,680**	*(1,195)*	*0*	**(1,195)**	**1,485**
215	-	*249*	**249**	**464**	Community Focused Extended School Activities	R	**464**	**-**	*328*	**328**	**791**
5,573	-	*1,312*	**1,312**	**6,885**	Supply Sickness Scheme	R	**6,885**	**-**	*1,015*	**1,015**	**7,900**
1,370	-	*10,301*	**10,301**	**11,671**	Schools Budget Central Expenditure	R	**11,671**	(11,427)	8,127	**(3,300)**	**8,372**
46,116	*(189)*	*13,054*	**12,865**	**58,981**	**Balances held by schools under a scheme of delegation**		**58,981**	*(12,622)*	*19,879*	**7,257**	**66,238**
-	-	-	**-**	**-**	Academy Conversion Reserve	R	**-**	-	1,000	**1,000**	**1,000**
-	-	*75*	**75**	**75**	Campus Reprovision Reserve	C	**75**	(75)	-	**(75)**	**-**
20,404	*(15,278)*	*5,772*	**(9,507)**	**10,897**	Capital Payback	C	**10,897**	(17,310)	7,413	**(9,897)**	**1,000**
-	-	-	**-**	**-**	Capital Grants Unapplied Interest Reserve	R	**-**	-	2,440	**2,440**	**2,440**
-	-	*158*	**158**	**158**	CCRAG Reserve	R	**158**	(4)	-	**(4)**	**154**
-	-	-	**-**	**-**	Causeway Reprovision	R	**-**	-	396	**396**	**396**
19	*(19)*	-	**(19)**	**-**	Childcare Litigation Reserves	R	**-**	-	-	**-**	**-**
557	*(124)*	*392*	**268**	**825**	Children Schools and Families Service Reserve*	R	**825**	(21)	-	**(21)**	**804**
-	-	*134*	**134**	**134**	Community Transport Support Grant	R	**134**	-	-	**-**	**134**
-	-	*1,285*	**1,285**	**1,285**	Commuted Maintenance	R	**1,285**	-	694	**694**	**1,979**
-	-	*204*	**204**	**204**	Connect Digitally Reserve	R	**204**	-	-	**-**	**204**
-	-	*847*	**847**	**847**	Corporate Carry Forwards	R	**847**	(847)	52	**(795)**	**52**
595	-	*157*	**157**	**752**	County Council Elections	R	**752**	-	136	**136**	**888**
-	-	*109*	**109**	**109**	DCLG Planning Delivery Grant	R	**109**	-	-	**-**	**109**
-	-	*8,734*	**8,734**	**8,734**	Education & Early Intervention Reserve	R	**8,734**	(8,734)	200	**(8,534)**	**201**
815	-	*74*	**74**	**888**	Education Trading Section Carry Forward	R	**888**	(1,813)	2,738	**925**	**1,813**
-	-	*90*	**90**	**90**	Enablement for Impower Reserve	R	**90**	(90)	-	**(90)**	**-**
150	-	-	**-**	**150**	Energy and Water Conservation	R	**150**	-	-	**-**	**150**
-	-	*142*	**142**	**142**	FSS Surplus to SSE formerly FSS Closing Balance	R	**142**	(142)	142	**-**	**142**
-	-	*163*	**163**	**163**	Fire & Rescue Reserve	R	**163**	(62)	76	**14**	**178**
388	*(236)*	*100*	**(136)**	**252**	Hadham Towers Restoration	R	**252**	(19)	-	**(19)**	**233**

Balance at 1 April 2010	*Transfers Out 2010/11*	*Transfers In 2010/11*	**Net Transfers during 2010/11**	**Balance at 31 March 2011**		Capital (C) or Revenue (R)	Balance at 1 April 2011	*Transfers out 2011/12*	*Transfers in 2011/12*	**Net Transfers during 2011/12**	**Balance at 31 March 2012**
-	-	-	**-**	**-**	Harperbury Legal Costs	R	**-**	-	150	**150**	**150**
630	*(261)*	-	**(261)**	**369**	HBS Repairs and Renewals	R	**369**	-	-	**-**	**369**
951	*(1,672)*	*1,115*	**(557)**	**394**	Hermis Development	R	**394**	-	-	**-**	**394**
-	-	-	**-**	**-**	Herts Music Service - Music Donations	R	**-**	-	264	**264**	**264**
52	*(52)*	-	**(52)**	**-**	Herts Property Artwork	R	**-**	-	-	**-**	**-**
6,000	*(6,000)*	-	**(6,000)**	**-**	Highways Maintenance	C	**-**	-	-	**-**	**-**
-	-	-	**-**	**-**	IAPT Reserve	R	**-**	-	304	**304**	**304**
15,511	*(5,155)*	-	**(5,155)**	**10,356**	Icelandic Bank Deposits	R	**10,356**	(10,000)	-	**(10,000)**	**356**
					Improvement East Payback Reserve	R	**-**	-	1,000	**1,000**	**1,000**
-	*(555)*	*16,295*	**15,740**	**15,740**	Invest to Transform	R	**15,740**	(136)	435	**300**	**16,040**
-	-	-	**-**	**-**	LAMS reserve	R	**-**	-	12,000	**12,000**	**12,000**
1,803	*(1,454)*	*1,437*	**(17)**	**1,786**	LAA Performance Reward Grant - Revenue	R	**1,786**	(533)	-	**(533)**	**1,253**
2,172	*(688)*	*616*	**(72)**	**2,100**	LAA Performance Reward Grant - Capital	C	**2,100**	(50)	-	**(50)**	**2,050**
-	-	-	**-**	**-**	LAA Reward Grant Reserve	R	**-**	-	895	**895**	**895**
304	*(304)*	-	**(304)**	**-**	Leasehold Dilapidations	R	**-**	-	-	**-**	**-**
-	-	-	**-**	**-**	Learning and Development Grant Funding	R	**-**	-	514	**514**	**514**
-	-	-	**-**	**-**	LEP Infrastructure Reserve	R	**-**	-	15,009	**15,009**	**15,009**
15	*(15)*	-	**(15)**	**-**	Local Standards Verification	R	**-**	-	-	**-**	**-**
-	-	-	**-**	**-**	Local Enterprise Partnership Growing Places	R	**-**	-	1,404	**1,404**	**1,404**
-	-	-	**-**	**-**	MMI Reserve	R	**-**	-	2,000	**2,000**	**2,000**
1,021	*(4,379)*	*3,358*	**(1,021)**	**-**	New Road & Street Works Act 1991	R	**-**	-	-	**-**	**-**
3,140	*(3,140)*	-	**(3,140)**	**-**	NNDR Revaluation Reserve	R	**-**	-	-	**-**	**-**
1,599	-	*12*	**12**	**1,611**	PFI Equalisation Reserve	R	**1,611**	(13)	21	**8**	**1,619**
-	-	*78*	**78**	**78**	POCA Receipts	R	**78**	(7)	345	**338**	**416**
-	-	*230*	**230**	**230**	Pooled Treatment Budget Reserve	R	**230**	(230)	118	**(111)**	**119**
30	*(112)*	*82*	**(30)**	**-**	Recruitment Advertisement Rebates	R	**-**	-	-	**-**	**-**
5,027	*(4,780)*	-	**(4,780)**	**247**	Revenue Grants Carry-forwards	R	**247**	(247)	-	**(247)**	**-**
-	-	*161*	**161**	**161**	RSS Implementation & Investment Study LPSA	R	**161**	-	-	**-**	**161**
-	-	*255*	**255**	**255**	Safeguarding & Specialist Services	R	**255**	(255)	911	**656**	**911**
22	-	*88*	**88**	**110**	Salix	R	**110**	(279)	446	**167**	**277**
-	-	*861*	**861**	**861**	SCRG Reserve	R	**861**	(861)	-	**(861)**	**-**
6,495	*(952)*	-	**(952)**	**5,543**	Self Insurance	R	**5,543**	(1,976)	3,000	**1,024**	**6,567**
500	*(255)*	-	**(255)**	**245**	SMS Reserve	R	**245**	(245)	-	**(245)**	**-**
752	*(500)*	*380*	**(120)**	**632**	Statutory Planning Authority Inquiries	R	**632**	-	-	**-**	**632**

Balance at 1 April 2010	*Transfers Out 2010/11*	*Transfers In 2010/11*	**Net Transfers during 2010/11**	**Balance at 31 March 2011**		Capital (C) or Revenue (R)	Balance at 1 April 2011	*Transfers out 2011/12*	*Transfers in 2011/12*	**Net Transfers during 2011/12**	**Balance at 31 March 2012**
655	*(655)*	-	**(655)**	**-**	Strategic planning	R	**-**	-	-	**-**	**-**
-	-	-	**-**	**-**	Support for Memory Services	R	**-**	-	110	**110**	**110**
-	-	*75*	**75**	**75**	University Grants	R	**75**	(85)	82	**(4)**	**72**
-	-	-	**-**	**-**	Warm Homes Grant	R	**-**	-	84	**84**	**84**
-	-	*8,000*	**8,000**	**8,000**	Waste PFI reserve	R	**8,000**	-	-	**-**	**8,000**
-	-	*1,296*	**1,296**	**1,296**	Winter Pressures Reserves	R	**1,296**	(1,296)	2,553	**1,257**	**2,553**
(5)	-	*294*	**294**	**289**	Other Minor Balances	R	**289**	-	*145*	**145**	**434**
115,718	*(46,776)*	*66,123*	**19,347**	**135,065**	**Total**		**135,065**	*(57,952)*	*76,956*	**19,005**	**154,072**

Note 9. Other Operating Expenditure

2010/11 Restated £000s		2011/12 £000s
-	Parish Council Precepts	-
2,231	Levies	2,197
49,545	(Gains) / Losses on the disposal of non current assets	185,160
-	Operating expenditure and income not attributable to services	(6,670)
51,776	**Total**	**180,687**

The loss on the disposal of non-current assets in 2011/12 includes accounting for schools converting to Academy Status. This has resulted in a transfer of assets by way of 125 year leases of Land & Property relating to the conversion to Academies (£180 million).

The figure for operating income not attributable to services includes £4.2m of rental income to the Council relating to properties leased out as care homes. In previous years, this income was shown under Non-Distributed costs within the Cost of Services but a review of this in 2011/12 determined that it was more appropriate to be shown here. The comparative figure for 2010/11 was £3.47m.

Note 10. Financing and Investment Income and Expenditure

2010/11 £000s		2011/12 £000s
15,534	Interest payable and similar charges	16,212
40,097	Pensions interest cost and expected return on pensions assets	24,007
(2,770)	Interest receivable and similar income	(2,903)
-	Income and expenditure in relation to investment properties and changes in their fair value	-
(1,772)	Surplus or Deficit on Trading Operations	(2,424)
-	Other investment income – *Insurance Fund*	-
51,090	**Total**	**34,892**

Note 11. Taxation and Non Specific Grant Income

2010/11 £000s		2011/12 £000s
(500,226)	Council Tax income	(504,478)
(153,653)	Non domestic rates	(153,323)
(159,855)	Non-ringfenced government grants	(322,025)
(813,734)	**Total**	**(979,826)**

Note 12. Property, Plant & Equipment and Investment Properties

Property, Plant & Equipment

Movement on Balances

Movements in 2010/11 Restated	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	**Total Property, Plant and Equipment** £000s	PFI Assets Included in Property, Plant and Equipment £000s
Cost or Valuation								
At 1 April 2010	**2,381,494**	**142,815**	**581,632**	**-**	**23,862**	**7,506**	**3,137,308**	**18,358**
Restatement	(2,309)	550	-	-	(79)	-	**(1,837)**	-
Restated Balance at 1 April 2010	**2,379,185**	**143,365**	**581,632**	**-**	**23,783**	**7,506**	**3,135,471**	**18,358**
Additions	77,066	14,648	58,643	-	144	205	**150,706**	-
Donations	-	-	-	-	-	-	**-**	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	7,646	-	-	-	1,297	-	**8,943**	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	(49,108)	-	-	-	(2,779)	-	**(51,887)**	-
Derecognition - Disposals	(64,680)	(22,205)	-	-	(15)	-	**(86,900)**	-
Derecognition – Other	(877)	-	-	-	-	-	**(877)**	-
Assets reclassified (to) / from Held for Sale	(3,874)	-	-	-	2,483	-	**(1,391)**	-
Other movements in Cost or Valuation	-	-	-	-	-	(1,519)	**(1,519)**	-
At 31 March 2011	**2,345,358**	**135,808**	**640,275**	**-**	**24,913**	**6,192**	**3,152,547**	**18,358**
Accumulated Depreciation and Impairment								
At 1 April 2010	**(47,415)**	**(60,219)**	**(117,981)**	**-**	**(389)**	**-**	**(226,003)**	**(188)**
Restatement	109	(118)	-	-	233	-	**224**	-
Restated Balance at 1 April 2010	**(47,305)**	**(60,337)**	**(117,981)**	**-**	**(155)**	**-**	**(225,778)**	**(188)**
Depreciation Charge	(41,947)	(12,744)	(18,782)	-	(154)	-	**(73,627)**	**(252)**
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	**-**	.
Depreciation written out to the Surplus / Deficit on the Provision of Service	-	-	-	-	108	-	**108**	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	**-**	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	8,633	-	-	-	-	-	**8,633**	-
Derecognition - Disposals	2,182	22,205	-	-	-	-	**24,387**	-
Derecognition – Other	-	-	-	-	-	-	**-**	-
Assets reclassified (to) / from Held for Sale	86	-	-	-	(71)	-	**15**	-
Other movements in Depreciation and Impairments	(62)	(514)	-	-	10	-	**(566)**	-
At 31 March 2011	**(78,414)**	**(51,390)**	**(136,763)**	**-**	**(262)**	**-**	**(266,830)**	**(440)**
Net Book Value								
At 31 March 2010	**2,331,879**	**83,028**	**463,651**	**-**	**23,627**	**7,506**	**2,909,692**	**18,170**
At 31 March 2011	**2,266,944**	**84,418**	**503,512**	**-**	**24,651**	**6,192**	**2,885,719**	**17,918**

Movements in 2011/12	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	**Total Property, Plant and Equipment** £000s	PFI Assets Included in Property, Plant and Equipment £000s
Cost or Valuation								
At 1 April 2011	**2,345,358**	**135,808**	**640,275**	**-**	**24,913**	**6,192**	**3,152,547**	**18,358**
Restatement	-	-	-	-	-	-	**-**	-
Restated Balance at 1 April 2011	**2,345,358**	**135,808**	**640,275**	**-**	**24,913**	**6,192**	**3,152,547**	**18,358**
Additions	80,952	24,586	56,286	-	65	6,568	**168,457**	-
Donations	-	-	-	-	-	-	**-**	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	53,170	-	-	-	3,674	-	**56,844**	2,995
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	(243,609)	-	(7,496)	-	(471)	-	**(251,576)**	(122)
Derecognition - Disposals	(179,771)	(15,855)	-	-	-	(637)	**(196,263)**	-
Derecognition – Other	(804)	-	-	-	-	-	**(804)**	-
Assets reclassified (to) / from Held for Sale	(5,091)	-	-	-	(12,820)	-	**(17,911)**	-
Other movements in Cost or Valuation	4,407	(5,087)	(554)	-	706	(4,405)	**(4,933)**	-
At 31 March 2012	**2,054,612**	**139,452**	**688,510**	**-**	**16,068**	**7,718**	**2,906,360**	**21,231**
Accumulated Depreciation and Impairment								
At 1 April 2011	**(78,414)**	**(51,390)**	**(136,763)**	**-**	**(262)**	**-**	**(266,830)**	**(440)**
Restatement	-	-	-	-	-	-	**-**	-
Restated Balance at 1 April 2011	**(78,414)**	**(51,390)**	**(136,763)**	**-**	**(262)**	**-**	**(266,830)**	**(440)**
Depreciation Charge	(41,428)	(16,283)	(20,321)	-	(203)	-	**(78,235)**	**(252)**
Depreciation written out to the Revaluation Reserve	37,608	-	-	-	195	-	**37,803**	69
Depreciation written out to the Surplus / Deficit on the Provision of Service	71,030	-	1,291	-	-	-	**72,321**	44
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	**-**	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	**-**	-
Derecognition - Disposals	-	11,812	-	-	-	-	**11,812**	-
Derecognition – Other	-	-	-	-	-	-	**-**	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	**-**	-
Other movements in Depreciation and Impairments	-485	2,940	249	-	(4)	-	**(2,700)**	-
At 31 March 2012	**(11,689)**	**(52,921)**	**(155,545)**	**-**	**(274)**	**-**	**(220,429)**	**(579)**
Net Book Value								
At 31 March 2011	**2,266,944**	**84,418**	**503,512**	**-**	**24,651**	**6,192**	**2,885,719**	**17,918**
At 31 March 2012	**2,042,923**	**86,531**	**532,965**	**-**	**15,793**	**7,718**	**2,685,931**	**20,652**

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Buildings: 10 – 100 years
- Vehicles, Plant, Furniture & Equipment: 3 – 30 years
- Infrastructure: 8 – 60 years

Capital Commitments

The value of capital contracts to which the Council is committed to as at the 31 March 2012 is estimated at £56.259 million (£65.272 million in 2010/11). For the purposes of this note a commitment is considered material if it exceeds a value of £100,000.

Description	**£000s**
The Bushey Academy Redevelopment Project	14,716
Nobel	7,598
The Francis Combe Academy	7,144
New Briars	3,770
ICT	2,694
Highways	2,178
Stevenage Fairlands	2,114
Borehamwood Summerswood	2,062
Quantum: Newhaven (Jubilee Court)	2,000
Watford Holywell Primary	1,740
Creswick	1,473
Quantum: Fosse House	1,400
Hemel Hempstead Hammond Primary	1,381
Hemel Hempstead Tudor Primary	1,215
Hitchin Highover	1,015
Hatfield New Barnfield ESC Relocation	769
Abbotts Langley Tannerswood	765
Waltham Cross Hurst Drive Primary	763
Quantum: Willow Court	400
Network Rail	318
UK Power Networks (operations) LTD	309
Little Green JM Mobile	268
Potters Bar Fire Station Crew Accommodation	167
Total	**56,259**

Revaluations

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

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

Type of Asset	Basis of Valuation
Operational land & buildings	Open market value for existing use, or where this could not be assessed because there was no market for the asset, depreciated replacement cost.
Operational vehicles, plant and equipment	Depreciated historic cost as a proxy for current replacement cost.
Infrastructure	Depreciated historic cost.
Surplus land & buildings, held for disposal	Market value.
Non Operational vehicles, plant and equipment	Depreciated historic cost.
Assets under construction	Historic cost.

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

5 year revaluation table

	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	**Total Property, Plant and Equipment £000s**	PFI Assets Included in Property, Plant and Equipment £000s
Valued at Historic Cost	-	88,421	532,965	-	-	7,718	**629,104**	-
Valued at Current Value in:								
2007/08	733	-	-	-	-	-	**733**	-
2008/09	2,012	-	-	-	-	-	**2,012**	-
2009/10	361,271	-	-	-	10,652	-	**371,923**	15,319
2010/11	71,377	-	-	-	3,805	-	**75,182**	-
2011/12	1,607,531	-	-	-	1,337		**1,608,868**	5,333
Grand Total	**2,042,924**	**88,421**	**532,965**	**-**	**15,793**	**7,718**	**2,687,823**	**20,652**

Investment Properties

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

Note 13. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

Movements in 2010/11 Restated	Paintings £000s	Artefacts £000s	Sculptures £000s	Total Heritage Assets £000s
Cost or Valuation				
At 1 April 2010	**1,880**	**87**	**25,521**	**27,488**
Additions	-	-	-	-
Donations	-	-	-	-
Disposals	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services		-	-	-
At 31 March 2011	**1,880**	**87**	**25,521**	**27,488**
Depreciation and Impairment				
At 1 April 2010				
Depreciation Charge	-	-	-	-
Disposals	-	-	-	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-
At 31 March 2011	**-**	**-**	**-**	**-**
Net Book Value				
At 31 March 2010	**1,880**	**87**	**25,521**	**27,488**
At 31 March 2011	**1,880**	**87**	**25,521**	**27,488**

Movements in 2011/12	Paintings £000s	Artefacts £000s	Sculptures £000s	Total Heritage Assets £000s
Cost or Valuation				
At 1 April 2011	**1,880**	**87**	**25,521**	**27,488**
Additions	-	-	-	-
Donations	-	-	-	-
Disposals	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-
At 31 March 2012	**1,880**	**87**	**25,521**	**27,488**
Depreciation and Impairment				
At 1 April 2011	**-**	**-**	**-**	**-**
Depreciation Charge	-	-	-	-
Disposals	-	-	-	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-
At 31 March 2012	**-**	**-**	**-**	**-**
Net Book Value				
At 31 March 2011	**1,880**	**87**	**25,521**	**27,488**
At 31 March 2012	**1,880**	**87**	**25,521**	**27,488**

Paintings

The Council's external valuer for its art work (Townley Valuation Services TVS) carried out a full valuation of the collection of paintings as at 31 March 2012. The valuations were based on TVS inspecting all our documented records and our photographic archive, undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

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

The art collection includes the following significant items valued at more than £30,000 by the external valuer: -

- Philip Mercier, Portrait of Frederick Lewis, Prince of Wales valued at £100,000;
- Philip Mercier, Portrait of Princess Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Amelia, Daughter of King George II and Queen Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Anne, Daughter of King George II and Queen Caroline valued at £80,000;
- Ceri Richards, Matisse valued at £60,000;
- Anne Redpath, The Blue Plate valued at £50,000;
- Circle of Jean Baptiste van Loo, Portrait of Queen Caroline valued at £40,000;
- Charles Jervas, Portrait of King George II, standing full length valued at £40,000
- Sir Thomas Lawrence, Portrait of William Plummer valued at £35,000;
- John Tunnard, Brandis valued at £35,000;
- Frances Hodgkins, Still Life With Vase and Eggs valued at £32,000.

Artefacts

This contains the Civic Regalia including a forty inch sterling silver chain, pendants and badges associated with the position of the Chairman and Vice-Chairman valued at their purchases cost of £8,313. In addition the schools collection includes an old school door and frame valued at £12,000 and a Flemish Landscape Tapestry, probably Oudenaard, circa 1670-1690 valued at £11,000.

Sculptures

The Council's collection of sculptures is reported in the Balance Sheet at insurance valuation which is based on market values. These sculptures will be revalued as part of the authority's five year revaluation programme and be subject to an annual existence check on a sample basis. The Council's external valuer for its art work (Townley Valuation Services TVS) carried out a full valuation of the collection of sculptures as at 31 March 2012. The valuations were based on TVS inspecting all our documented records and our photographic archive, undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

The collection of sculptures includes the following significant items valued at more than £50,000 by the external valuer: -

'Henry Moore, Family Group - £20,000,000;
'The stone figures of Queen Eleanor from Waltham Cross (on loan) - £4,000,000;
'Barbara Hepworth, Eocene: Mother & Child - £1,000,000;
'Barbara Hepworth, Turning Forms - £300,000.

Note 14. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

5 Years	Lotus Notes, Oracle, Abacus
10 Years	Public PC Replacement Enhancement, Local Government Online, Trading Standards IT

The carrying amount of intangible assets is amortised on a straight-line basis. Centrally charged amortisation is absorbed as overheads across all service headings if deemed material.

For 2010/11 and 2011/12 all intangible assets are purchased. The movement of intangible asset balances during the year is as follows:

31 March 2011				31 March 2012		
Software & Licences £000s	Portal & Web Design £000s	Total £000s		Software & Licences £000s	Portal & Web Design £000s	Total £000s
			Balance at start of year:			
7,388	1,822	**9,210**	– Gross carrying amount	8,106	1,822	**9,928**
(3,068)	(912)	**(3,980)**	– Accumulated amortisation	(4,357)	(1,094)	**(5,451)**
4,320	910	**5,230**	Net carrying amount at start of year	**3,749**	**728**	**4,477**
			Additions:			
-	-	**-**	– Internal Development	-	-	**-**
718	-	**718**	– Purchases	2,406	-	**2,406**
-	-	**-**	– Acquired through business combinations	-	-	**-**
-	-	**-**	Assets reclassified as held for sale	-	-	**-**
-	-	**-**	Other disposals	-	-	**-**
-	-	**-**	Revaluation increases or decreases	-	-	**-**
-	-	**-**	Impairment loses recognised or reversed directly through the Revaluation Reserve	-	-	**-**
-	-	**-**	Impairment losses recognised in the Surplus / Deficit on the Provision of Services	-	-	**-**
-	-	**-**	Reversals of past impairment losses written back to the Surplus / Deficit on the Provision of Services	-	-	**-**
(1,289)	(182)	**(1,471)**	Amortisation for the period	(1,317)	(182)	**(1,499)**
-	-	**-**	Other changes	1,888	-	**1,888**
3,749	**728**	**4,477**	**Net carrying amount at end of year**	**6,726**	**546**	**7,272**
			Comprising:			
8,106	1,822	**9,928**	– Gross carrying amount	15,233	1,822	**17,055**
(4,357)	(1,094)	**(5,451)**	– Accumulated amortisation	(8,506)	(1,276)	**(9,782)**
3,749	**728**	**4,477**	**Net carrying amount at end of year**	**6,727**	**546**	**7,272**

There is one item of capitalised software that is individually material to the financial statements, namely for e-services Solution Licence (£2.022m)

Note 15. Financial Instruments

This note supports the Balance Sheet and has not been affected by the restatement of some 2010-11 balances.

Categories of Financial Instruments

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

31 March 2011			31 March 2012	
Current £000s	Long Term £000s		Current £000s	Long Term £000s
		Investments		
17,570	9,121	Loans and receivables	31,105	4,491
25,012	-	Available-for-sale financial assets	105,061	-
-	-	Unquoted equity investment at cost	11	-
-	-	Financial assets at fair value through profit and loss	-	-
42,582	**9,121**	**Total investments**	**136,176**	**4,491**
		Debtors		
-	-	Loans and receivables	-	-
-	-	Soft Loans	-	-
18,505	-	Financial assets carried at contract amounts	34,860	-
18,505	**-**	**Total debtors**	**34,860**	**-**
		Borrowings		
(2,985)	(287,487)	Financial liabilities at amortised cost	(31,398)	(260,525)
-	-	Financial liabilities at fair value through profit and loss	-	-
(2,985)	**(287,487)**	**Total borrowings**	**(31,398)**	**(260,525)**
		Other Liabilities		
(585)	(18,324)	PFI liabilities	(510)	(17,814)
(338)	(775)	Finance lease liabilities	(196)	(579)
-	-	Keyworker Housing Advances	-	-
-	(12)	Future Repayments due on Mortgages and Advances	-	(9)
(923)	**(19,111)**	**Total other liabilities**	**(706)**	**(18,402)**
		Creditors		
-	-	Financial liabilities at amortised cost	-	-
(16,053)	-	Financial liabilities carried at contract amount	(14,180)	-
(16,053)	**-**	**Total creditors**	**(14,180)**	**-**

Reclassifications

In 2011/12 the Council did not have any reclassifications.

Income, Expenses, Gains and Losses

2010/11						2011/12				
Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans & Receivables £000s	Financial Assets: Available for sale £000s	Assets & Liabilities at Fair Value through Profit and Loss £000s	Total £000s		Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans & Receivables £000s	Financial Assets: Available for sale £000s	Assets & Liabilities at Fair Value through Profit and Loss £000s	Total £000s
13,563	-	-	-	13,563	Interest expense	14,758				14,758
-	-	-	-	-	Losses on derecognition					
-	-	-	-	-	Reductions in fair value					
-	5,007	-	-	5,007	Impairment losses					
-	-	-	-	-	Exchange Rate Losses	-	20	-	-	20
15	88	-	-	103	Fee expense	1,424	31			1,455
13,578	**5,095**	**-**	**-**	**18,673**	**Total expense in Surplus or Deficit on the Provision of Services**	**16,182**	**51**			**16,233**
-	(637)	-	-	(637)	Interest income	-	(1,875)	-	-	(1,875)
-	(1,102)	-	-	(1,102)	Interest income accrued on impaired financial assets		(1,048)			(1,048)
-	-	-	-	-	Increases in fair value					
-	-	-	-	-	Reduction in Impairment	-	(580)	-	-	(580)
-	-	-	-	-	Fee income					
-	**(1,739)**	**-**	**-**	**(1,739)**	**Total income in Surplus or Deficit on the Provision of Services**		**(3,503)**			**(3,503)**
-	-	-	-	-	Gains on revaluation	-	-	-	-	-
-	-	-	-	-	Losses on revaluation	-	-	-	-	-
-	-	-	-	-	Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-
-	-	-	-	-	**Surplus / Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure**	-	-	-	-	-
13,578	**3,356**	**-**	**-**	**16,934**	**Net gain / (loss) for the year**	**16,182**	**(3,452)**			**12,730**

Fair Values of Assets and Liabilities

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

- estimated ranges of interest rates at 31 March 2012 of 4.10% to 8.00% for loans from the PWLB and 0.17% to 3.78% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2011			31 March 2012	
Carrying Amount £000s	Fair Value £000s		Carrying Amount £000s	Fair Value £000s
290,472	346,657	Borrowings	291,923	405,139
18,909	18,909	PFI Liabilities	18,324	18,324
1,113	1,113	Finance Lease Liabilities	775	775
12	12	Future repayments on mortgages and advances	9	9
16,053	16,053	Creditors	14,180	14,180

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

31 March 2011			31 March 2012	
Carrying Amount £000s	Fair Value £000s		Carrying Amount £000s	Fair Value £000s
26,691	27,474	Loans and Receivables	35,596	35,564
-	-	Soft Loans		
25,012	25,012	Available for sale financial assets	105,061	105,061
-	-	Unquoted Equity at cost	10	10
18,505	18,505	Debtors	34,860	34,860

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of investments where the interest rate receivable is higher than the rates available for similar investments at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2012) attributable to the commitment to receive interest above current market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Note 16. Inventories

31 March 2011						31 March 2012				
Trading Services £000s	Education & Children's Services £000s	Fire & Rescue £000s	Cultural, Env. & Planning Services £000s	Total £000s		Trading Services £000s	Education & Children's Services £000s	Fire & Rescue £000s	Cultural, Env. & planning Services £000s	Total £000s
3,320	280	113	57	3,770	Balance outstanding at start of year	3,959	131	106	54	4,250
25,352	1	-	42	25,395	Purchases	28,495	-	-	35	28,530
(24,713)	(20)	(7)	(45)	(24,785)	Recognised as an expense in year	(28,234)	(31)	(6)	(43)	(28,314)
-	(130)	-	-	(130)	Written off balances	-	-	-	-	-
-	-	-	-	-	Reversals of write-offs in previous years	-	-	-	-	-
3,959	**131**	**106**	**54**	**4,250**	**Balance outstanding at end of year**	**4,220**	**100**	**100**	**46**	**4,466**

Note 17. Construction Contracts

At 31 March 2012 the Council had no construction contracts in progress.

Note 18. Debtors

This note supports the Balance Sheet and has not been affected by the restatement of some 2010-11 balances.

Short-Term:

31 March 2011 £000s		31 March 2012 £000s
13,628	Central government bodies	26,818
32,775	Other local authorities	35,304
5,075	NHS bodies	1,283
138	Public corporations and trading funds	1
63,675	Other entities and individuals	49,222
(12,259)	Provisions for doubtful debts	(14,712)
103,032	**Total**	**97,916**

Long-Term:

31 March 2011 £000s		31 March 2012 £000s
-	Central government bodies	-
-	Other local authorities	-
-	NHS bodies	-
-	Public corporations and trading funds	-
22,430	Other entities and individuals	18,949
(736)	Provisions for doubtful debts	-
21,694	**Total**	**18,949**

Analysis of provisions for doubtful debts:

31 March 2011 £000s			31 March 2012 £000s	
		Short Term:		
(11,114)		Balance at start of the year	(12,259)	
(1,145)		Decrease / (Increase) in general provision	(2,453)	
	(12,259)	Balance at end of Year		(14,712)
		Long Term:		
-		Balance at start of the year	(736)	
(736)		Decrease / (Increase) in general provision	736	
	(736)	Balance at end of Year		-
	(12,995)	**Total**		**(14,712)**

Note 19. Cash and Cash Equivalents

This note supports the Balance Sheet and has not been affected by the restatement of some 2010-11 balances.

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

31 March 2011 £000s		31 March 2012 £000s
10,117	Cash held by the Council with bank	75,701
(13,039)	Bank current account balance / (overdraft)	(8,346)
28,900	Short-term deposits with building societies	-
25,978	**Total**	**67,354**

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

Since 1st April 2011, schools balances have been removed from the pooled arrangements, and balances held in their deposit accounts are included in these cash figures.

Note 20. Assets held for Sale

31 March 2011			31 March 2012	
Non-Current £000s	Current £000s		Non-Current £000s	Current £000s
-	3,002	Balance outstanding at start of year	-	345
		Assets newly classified as held for sale:		
-	3,247	– Property, Plant and Equipment	-	17,911
-	-	– Intangible Assets	-	-
-	-	– Other assets / liabilities in disposal groups	-	-
-	(2,196)	Revaluation losses	-	-
-	362	Revaluation gains	-	-
-	-	Impairment losses	-	-
		Assets declassified as held for sale:		
-	(998)	– Property, Plant and Equipment	-	-
-	-	– Intangible Assets	-	-
-	-	– Other assets / liabilities in disposal groups	-	-
-	(3,072)	Assets sold	-	(10,399)
-	-	Transfers from non current to current	-	-
-	-	Other movements	-	-
-	**345**	**Balance outstanding at end of year**	**-**	**7,857**

Note 21. Creditors

This note supports the Balance Sheet and has not been affected by the restatement of some 2010-11 balances.

Short-Term:

31 March 2011 £000s		31 March 2012 £000s
(18,050)	Central government bodies	(40,819)
(18,602)	Other local authorities	(24,446)
(11,564)	NHS bodies	(3,844)
(140)	Public corporations and trading funds	(99)
(147,341)	Other entities and individuals	(134,552)
(195,697)	**Total**	**(203,760)**

Long-Term:

31 March 2011 £000s		31 March 2012 £000s
-	Central government bodies	-
-	Other local authorities	-
-	NHS bodies	-
-	Public corporations and trading funds	-
(599)	Other entities and individuals	(265)
(599)	**Total**	**(265)**

Note 22. Provisions

The following provisions have been set aside in the 2011/12 accounts to meet future expenditure where liabilities are known or expected.

31 March 2011	Balance at 1 April 2010 £000s	Additional provisions made in 2010/11 £000s	Amounts used in 2010/11 £000s	Unused amounts reversed in 2010/11 £000s	Unwinding of discounting in 2010/11 £000s	**Balance at 31 March 2011 £000s**
Insurance Provision	14,598	4,936	-4,387	-3,469	-	**11,678**
Teachers Pension Provision	770	-	-	-	-	**770**
Equal Pay Provision	1,077	-	-	-1,077	-	**-**
Other Liabilities	-	-	-	-17	-	**-17**
Equal Pay Provision Non-schools	-	463	-	-	-	**463**
Equal Pay Provision Schools	-	442	-	-	-	**442**
Total	**16,445**	**5,841**	**-4,387**	**-4,563**	**0**	**13,336**

31 March 2012	Balance at 1 April 2011 £000s	Additional provisions made in 2011/12 £000s	Amounts used in 2011/12 £000s	Unused amounts reversed in 2011/12 £000s	Unwinding of discounting in 2011/12 £000s	**Balance at 31 March 2012 £000s**
Insurance Provision	11,678	5,067	(3,993)	-	-	**12,751**
Teachers Pension Provision	770	1,573	(38)	(567)	-	**1,738**
Maternity Provision	-	2,374	-	-	-	**2,374**
Equal Pay Provision	-	-	-	-	-	**-**
Other Liabilities	(17)	241	(17)	-	-	**207**
Equal Pay Provision Non-schools	463	-	(463)	-	-	**-**
Equal Pay Provision Schools	442	-	(442)	-	-	-
Total	**13,336**	**9,255**	**(4,953)**	**(567)**	**-**	**17,070**

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

Teachers Pension Provision
Relating to the backdated costs for pension liabilities following changes to the pension provisions for part-time staff.

Maternity Provision

School based staff, as with most HCC staff, are entitled to maternity pay when they have a baby. The Council incurs a liability when the member of staff informs the school of the pregnancy, which they must do by the 15th week. This means that at any year end there will be a liability for those who are pregnant at 31st March and who will be entitled to maternity pay in the coming financial year.

The cost of maternity pay has previously been met from a central schools budget and, due to the relatively constant nature of the cost, has simply been dealt with on an in-year basis even though there is an outstanding liability at each year end - this is consistent with the arrangements for other HCC staff.

In 2012-13, however, a circumstance has arisen whereby this liability needs to be specifically recognised. This is because of a combination of the drive towards conversion to academy status and the delegation of the budget for maternity provision to schools, rather than being a centrally managed budget.

Schools are being given the budget for maternity pay and can use this to provide insurance cover for themselves to meet the cost of maternity pay as and when it arises. This insurance will cover all schools in future but does not cover them in relation to staff that are past the expected week of confinement and those already on maternity leave. In the case of schools which convert to academy status during 2012/13, but are maintained as at 31st March 2012, this results in a liability that HCC is required to pay to the academy during the conversion.

There is increasing pressure from the Government on schools to convert to academy status and many HCC schools are investigating this priority. As such, the potential liability for 2012/13 could be significant and under the Code a provision should be recognised to reflect the fact that there is an existing liability which HCC may be obliged to transfer resources to cover.

This provision will be a one-off occurrence in 2012-13 because all schools will have responsibility for meeting any future maternity costs and will be covered by the insurance arrangements going forward (if they chose to insure) so schools would have no further call on HCC funding for maternity costs for staff informing them of pregnancy after the commencement of the new scheme in April 2012.

Equal Pay Provision
Provision in accordance with the Code of Practice has been made for back pay relating to unequal pay arising from the implementation of the single status agreement. In some cases these claims can take several years to settle. Central government regulations providing discretion to authorities to defer charging unequal pay back pay expenditure, or social security costs or other costs incurred by the Council in relation to that back payment to General Fund Balances, until the date on which the Council must pay the back payment have been applied.

The proposed final settlement was presented to the individuals around June and the claim has now been settled with all payments processed. In addition to the original claim, there were further claims processed and settled during 2011/12. This resulted in increasing the overall settlement claim from £906k to £985k.

Other Provisions

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

Expected outflow of economic benefits:

31 March 2011	Not later than one year	Later than one year and not later than five years	Later than five years	Total Provision
Insurance Provision	5,639	6,039	-	**11,678**
Teachers Pension Provision	770	-	-	**770**
Equal Pay Provision	-	-	-	**-**
Other Provisions	-17	-	-	**-17**
Equal Pay Provision Non-schools	463	-	-	**463**
Equal Pay Provision Schools	442	-	-	**442**
Total	**7,297**	**6,039**	**-**	**13,336**

31 March 2012	Not later than one year	Later than one year and not later than five years	Later than five years	Total Provisions
Insurance Provision	5,355	7,396	-	**12,751**
Teachers Pension Provision	1,738	-	-	**1,738**
Maternity Provision	2,301	73	-	**2,374**
Equal Pay Provision	-	-	-	**-**
Other Provisions	7	27	173	**207**
Equal Pay Provision Non-schools	-	-	-	**-**
Equal Pay Provision Schools	-	-	-	**-**
Total	**9,401**	**7,496**	**173**	**17,070**

Note 23. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

Capital Receipts Reserve

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

31 March 2011 £000s			31 March 2012 £000s	
	19,250	Balance at 1 April		3,092
16,044		Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	10,493	
-		Sales proceeds accrued in year	-	
1,665		Adjustment on Capital Receipts Reserve re: St Marys	-	
(33,867)		Use of the Capital Receipts Reserve to finance new capital expenditure	(928)	
-		Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	
-		Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	
-		Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	
	(16,158)			9,565
	3,092	**Balance at 31 March**		**12,657**

Capital Grants Unapplied

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is allocated to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

31 March 2011 £000s			31 March 2012 £000s	
	53,605	Balance at 1 April		36,961
2,895		Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	93,878	
(18,011)		Application of grants to capital financing transferred to the Capital Adjustment Account	(53,777)	
106		Interest Allocation	(2,330)	
(1,633)		Repayments of grants	-	
	(16,644)			37,771
	36,961	**Balance at 31 March**		**74,730**

Note 8 provides further details about Earmarked Reserves.

Note 24. Unusable Reserves

31 March 2011 Restated £000s		31 March 2012 £000s
251,238	Revaluation Reserve	327,434
-	Available for Sale Financial Instruments Reserve	-
2,070,425	Capital Adjustment Account	1,830,061
(4,858)	Financial Instruments Adjustment Account	(4,671)
(708,229)	Pensions Reserve	(867,443)
6,071	Deferred Capital Receipts Reserve	5,993
2,971	Collection Fund Adjustment Account	3,097
-	Unequal Pay Back Pay Account	-
(15,375)	Accumulating Compensated Absences Adjustment Account	(22,157)
1,602,241	**Total**	**1,272,312**

The restatement of 2010-11 balances affects the Revaluation reserve and Capital Adjustment Account but does not affect other unusable reserves.

Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

31 March 2011 Restated £000s			31 March 2012 £000s	
	246,019	Restated Balance at 1 April		251,238
14,747		Upward revaluation of assets	142,510	
(6,105)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(47,863)	
	8,642	Surplus of Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		94,647
(2,934)		Difference between fair value depreciation and historical cost depreciation	(3,826)	
(490)		Accumulated gains on assets sold or scrapped	(14,625)	
	(3,424)	Amount written off to the Capital Adjustment Account		(18,451)
	251,238	**Balance at 31 March**		**327,434**

Available for Sale Financial Instruments Reserve

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

Although the Council recognises some of its financial instruments as available for sale, these are held in fixed value units, so no revaluation is required.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

31 March 2011 Restated £000s			31 March 2012 £000s	
	2,079,667	**Balance at 1 April**		**2,070,425**
	(1,613)	Opening Balance Adjustment		-
	2,078,054	**Restated Opening Balance at 1 April**		**2,070,425**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(118,874)		– Charges for depreciation and impairment of non-current assets	(78,236)	
-		– Revaluation losses on Property, Plant and Equipment	(179,579)	
(1,471)		– Amortisation of intangible assets	(1,499)	
(5,224)		– Revenue expenditure funded from capital under statute	(4,417)	
(65,588)		– Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(195,653)	
(191,158)			(459,384)	
3,424		Adjusting amounts written out of the Revaluation Reserve	18,451	
	(187,734)	Net written out amount of the cost of non-current assets consumed in the year		(440,933)
		Capital financing applied in the year:		
33,867		– Use of the Capital Receipts Reserve to finance new capital expenditure	928	
(1,665)		– Adjustment to Capital Receipts Reserve re: St. Mary's	-	
20,385		– Use of the Capital Reserve to finance new capital expenditure	17,310	
73,903		– Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	77,997	
18,011		– Application of grants to capital financing from the Capital Grants Unapplied Account	53,777	
26,047		– Statutory provision for the financing of capital investment charged against the General Fund	25,315	
9,556		– Capital expenditure charged against the General Fund	25,242	
	180,103			200,569
	-	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-
	-	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-
	2,070,425	**Balance at 31 March**		**1,830,061**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

31 March 2011 £000s			31 March 2012 £000s	
	(10,218)	Balance at 1 April		(4,858)
-		Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	
157		Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	157	
5,155		Value of impairment on Icelandic investments charged to the Financial Instruments Adjustment Account in previous years and transferred to the General Fund in 201/11, in accordance with statutory requirements	-	
(33)		Adjustment for Equivalent Interest Rate on finance costs, in accordance with statutory requirements	(38)	
81		Soft Loans	68	
	5,360	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		187
	(4,858)	**Balance at 31 March**		**(4,671)**

Pension Reserve

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

31 March 2011 £000s		31 March 2012 £000s
(1,185,433)	Balance at 1 April	(708,229)
307,087	Actuarial gains or losses on pensions assets and liabilities benefits debited or credited to the Comprehensive Income and Expenditure Statement	(155,297)
98,699	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(68,073)
71,418	Employer’s pensions contributions and direct payments to pensioners payable in the year	64,156
(708,229)	**Balance at 31 March**	**(867,443)**

Deferred Capital Receipts Reserve

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

31 March 2011 £000s			31 March 2012 £000s	
	6,145	Balance at 1 April		6,071
-		Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-	
(74)		Transfer to General Fund upon receipt of cash	(78)	
	(74)			(78)
	6,071	**Balance at 31 March**		**5,993**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2011 £000s		31 March 2012 £000s
1,959	Balance at 1 April	2,971
1,012	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	126
2,971	**Balance at 31 March**	**3,097**

Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants. All payments were finalised in 2011/12 and so this reserve ended the year at zero.

31 March 2011 £000s			31 March 2012 £000s	
	(1,077)	Balance at 1 April		-
1,077		Increase/(Decrease) in provision for back pay in relation to Equal Pay cases	-	
-		Cash settlements paid in the year	-	
	1,077	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		-
	-	**Balance at 31 March**		**-**

Accumulated Absences Account

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

31 March 2011 £000s			31 March 2012 £000s	
	(22,384)	Balance at 1 April		(15,375)
22,384		Settlement or cancellation of accrual made at the end of the preceding year	15,375	
(15,375)		Amounts accrued at the end of the current year	(22,157)	
	7,009	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(6,782)
	(15,375)	**Balance at 31 March**		**(22,157)**

Note 25. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000s		2011/12 £000s
2,392	Interest received	1,909
(15,523)	Interest paid	(16,722)
-	Dividends paid	-

Note 26. Cash Flow Statement – Investing Activities

2010/11 £000s		2011/12 £000s
(137,017)	Purchase of property, plant and equipment, investment property and intangible assets	(164,950)
(26,120)	Purchase of short-term and long-term investments	(87,410)
-	Other payments for investing activities	(1,504)
9,673	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	9,945
5,629	Proceeds from short-term and long-term investments	-
114,406	Other receipts from investing activities	191,137
(33,430)	**Net cash flows from investing activities**	**(52,782)**

Of the £191.1m of other receipts from investing activities, £187.7m relates to new capital grants received in year.

Note 27. Cash Flow Statements – Financing Activities

2010/11 £000s		2011/12 £000s
-	Cash receipts of short- and long-term borrowing	1,400
(1,012)	Council Tax & NNDR adjustments	5,511
-	Other receipts from financing activities	17
(1,020)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	
(5,292)	Repayments of short- and long-term borrowing	(3)
-	Other payments for financing activities	(922)
(7,323)	**Net cash flows from financing activities**	**6,001**

Note 28. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the Chief Operating Decision Maker on the basis of budget reports analysed across departments.

The Chief Operating Decision Maker (CODM) is the individual or body charged with allocating resources between segments of the organisation. In the case of Hertfordshire, this Cabinet is comprised of executive elected members.

Reports to the CODM are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Capital charges for certain operational assets are shown against services in the segmental analysis but these are not shown in line with the Best Value definition of total cost. This definition is applied to the figures shown in the Comprehensive Income & Expenditure Account where all capital charges, revaluations, impairment losses in excess of the balance on the revaluation reserve and amortisations are shown against services if applicable
- The cost of retirement benefits are treated as uncontrollable and the actual current service cost of benefits accrued in the year are only reflected at the end of the year
- Expenditure on some support services is budgeted for centrally and not charged to services
- Various adjustments required by SERCOP are not reflected (e.g. certain pension costs)

Subjective analysis of these balances is not required by Chief Operating Decision Maker, but is a required disclosure for the purposes of financial reporting. The analysis below is based on internal categorisations, so will be on a different basis to income and expenditure as shown in the Comprehensive Income and Expenditure Statement.

2010/11	Children's Services	Health and Community Services	Environmental and Commercial Services	Community Protection	Resources & Performance	Central Items	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expenditure							
- Employee	1,169,870	81,889	49,050	34,837	37,177	-	**1,372,822**
- Depreciation, amortisation and impairment (capital charges)	42,319	5,267	20,643	-	2,759	(26,502)	**44,487**
- Support Service recharges	63,351	22,220	6,525	1,217	(54,703)	-	**38,610**
- Interest & Capital Financing	-	-	-	-	-	46,568	**46,568**
- Precepts & Levies	-	-	-	-	-	2,231	**2,231**
- Gain/Loss on disposal of non-current assets	-	-	-	-	-	-	**-**
- Other service expenses	602,688	670,560	128,231	10,524	48,277	1,454	**1,461,734**
- Net pension costs	-	-	-	-	-	13,175	**13,175**
Income							
- Fees, charges and other service income	(570,343)	(425,981)	(75,622)	(2,350)	(32,700)	-	**(1,106,996)**
- Government grants and other contributions	(1,012,518)	(12,174)	(2,253)	(1,172)	876	(4,144)	**(1,031,384)**
Net Expenditure as reported to the County Council	**295,368**	**341,780**	**126,575**	**43,056**	**1,686**	**32,782**	**841,247**

2011/12	Children's Services	Health and Community Services	Environmental and Commercial Services	Community Protection	Resources & Performance	Central Items	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expenditure							
- Employee	614,894	77,690	39,740	33,605	28,916	-	794,845
- Depreciation, amortisation and impairment (capital charges)	43,204	4,905	22,216	2,353	3,302	(196,560)	(120,581)
- Support Service recharges	25,310	20,918	5,578	1,362	(51,215)	-	1,953
- Interest & Capital Financing	-	30	-	-	373	63,583	63,986
- Precepts & Levies	-	-	-	-	-	2,197	2,197
- Gain/Loss on disposal of non-current assets	-	-	-	-	-	-	-
- Other service expenses	382,197	830,154	157,411	9,773	48,704	(139)	1,428,100
- Net pension costs	-	-	-	-	-	139,959	139,959
Income							
- Fees, charges and other service income	(42,677)	(72,429)	(83,902)	(1,657)	(29,155)	-	(229,819)
- Government grants and other contributions	(771,118)	(495,997)	(5,186)	(1,063)	(1,023)	-	(1,274,388)
Net Expenditure as reported to the County Council	**251,810**	**365,271**	**135,857**	**44,373**	**(98)**	**9,040**	**806,253**

Reconciliation to Cost of Services in the Comprehensive Income and Expenditure Statement

2010/11 restated £000s		2011/12 £000s
841,247	Net Expenditure in the Segmental Analysis	806,253
(28,794)	Amounts included in the Segmental analysis and included below the Net Cost of Services on the Comprehensive Income & Expenditure Statement	(12,923)
(28,473)	Amounts included in the Segmental analysis and not included in the Comprehensive Income & Expenditure Statement	-
(217,630)	Amounts in the Comprehensive Income & Expenditure Statement not included in the segmental analysis	166,990
566,350	**Cost of Services in Comprehensive Income & Expenditure Account**	**960,319**

In addition to the service amounts shown above, there are further differences between the reports to the Chief Operating Decision Makers and the statutory financial reports, which can be categorised as:

- amounts reported to management but not required by statutory reporting (e.g. certain capital financing costs which are not accounted for through the Comprehensive Income & Expenditure Statement)
- amounts not reported to management but required by statutory reporting (e.g. gains/losses on disposal of assets)

These adjustments are summarised in the table below:

2010/11 Restated	**Per Segment Analysis** £000s	**Amounts included in segmental reporting and excluded from CI&E** £000s	**Amounts Included in CI&E and excluded from Segmental Reporting** £000s	**CI&E Total** £000s
Employee	1,372,822	-	(218,547)	1,154,276
Depreciation, amortisation and impairment (capital charges)	44,487	(763)	76,621	120,345
Support Service recharges	38,610	-	-	38,610
Interest Payments	46,568	(31,161)	127	15,534
Precepts & Levies	2,231	-	-	2,231
Other service expenses	1,461,734	(23,803)	(139,485)	1,298,446
Net Pension Costs	13,175	-	26,922	40,097
Gain/Loss on disposal of non-current assets	-	-	49,545	49,545
Total Expenditure	**2,979,628**	**(55,727)**	**(204,817)**	**2,719,084**
Fees, charges and other service income	(1,106,996)	-	-	(1,106,996)
Government grants and other contributions	(1,031,384)	-	(222,225)	(1,253,609)
Income from Council Tax	-	-	(500,226)	(500,226)
Interest & investment income	-	-	(2,770)	(2,770)
Total Income	**(2,138,380)**	**-**	**(725,221)**	**(2,863,601)**
Net Expenditure	**841,247**	**(55,727)**	**(930,038)**	**(144,516)**

2011/12	Per Segment Analysis	Amounts included in segmental reporting and excluded from CI&E	Amounts Included in CI&E and excluded from Segmental Reporting	CI&E Total
	£000s	£000s	£000s	£000s
Employee	794,845	-	718,893	1,513,738
Depreciation, amortisation and impairment (capital charges)	(120,581)	-	378,396	257,815
Support Service recharges	1,953	-	(1,953)	-
Interest Payments	63,986	-	(47,774)	16,213
Precepts & Levies	2,197	-	-	2,197
Gain/Loss on disposal of non-current assets	-	-	185,160	185,160
Other service expenses	1,428,100	-	(676,393)	751,707
Net Pension Costs	139,959	-	(115,952)	24,007
Total Expenditure	2,310,460	-	440,376	2,750,836
Fees, charges and other service income	(229,819)	-	(66,424)	(296,243)
Government grants and other contributions	(1,274,388)	-	(476,752)	(1,751,140)
Income from Council Tax	-	-	(504,478)	(504,478)
Interest & investment income	-	-	(2,903)	(2,903)
Gain/Loss on disposal of non-current assets	-	-	-	-
Total Income	(1,504,207)	-	(1,050,556)	(2,554,763)
Net Expenditure	**806,253**	**-**	**(610,180)**	**196,072**

Note 29. Acquired and Discontinued Operations

During 2011/12, the Council took on responsibility for passenger transport concessionary fares. This transferred from the District Councils with a budget of £12,467k. The net spend on this activity in the year was £11,810k and this is shown on the Comprehensive Income & Expenditure Account as a Transfer of Funding. In future years this will fall within the Highways and Transport Services line of the Comprehensive Income & Expenditure Statement.

During 2011/12, the Council had one discontinued operation with the responsibility for running the Student Finance Service transferred to the Students Loans Company. This was previously included within Children's & Education services line of the Comprehensive Income & Expenditure Statement.

Note 30. Trading Operations

The Council has established 5 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. The Childcare Litigation Unit, which provided legal support for the Council's Children's Services is no longer a trading unit and is included for comparative purposes only. Details of those units for 2011/12 are as follows:

Hertfordshire Catering

Hertfordshire Catering is the Council's education caterer, who provides a quality catering service to over 500 primary, middle and secondary schools in Hertfordshire, as well as to other organisations.

Hertfordshire Business Services (HBS)

HBS offers a professional purchasing, supply and contract management service to the Council. HBS acts as client manager for the school meals service and vehicle maintenance. HBS is a leading member of the Central Buying Consortium consisting of 17 local authorities and negotiates both joint and Council specific contracts.

Hertfordshire Reprographics

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

Childcare Litigation Unit

The Childcare Litigation Unit is not longer a trading unit from 2011/12, it previously provided legal support for the Council's children's services.

Financial Services for Schools (FSS)

FSS provides quality, value for money financial services to Hertfordshire schools, working closely with school staff, head teachers and governors, operating a financial systems help line, visiting schools on a regular or ad-hoc basis to provide financial support and training, and running group training courses for school staff and governors. FSS also provides support for local and central government initiatives, (such as the Financial Management Standard in Schools), as well as support to schools causing concern and school reorganisations under a service level agreement with the Council.

Summary

2010/11 £000s			2011/12 £000s	
(22,030)		Turnover for Hertfordshire Catering	(23,615)	
21,912		Expenditure for Hertfordshire Catering	23,313	
	(118)	**(Surplus) / Deficit for Hertfordshire Catering**		**(302)**
(39,816)		Turnover for Hertfordshire Business Services (HBS)	(44,166)	
38,328		Expenditure for Hertfordshire Business Services (HBS)	42,303	
	(1,488)	**(Surplus) / Deficit for Hertfordshire Business Services**		**(1,863)**
(1,517)		Turnover for Hertfordshire Reprographics	(1,181)	
1,441		Expenditure for Hertfordshire Reprographics	1,133	
	(76)	**(Surplus) / Deficit for Hertfordshire Reprographics**		**(48)**
(1,957)		Turnover for Childcare Litigation Unit	-	
1,933		Expenditure for Childcare Litigation Unit	-	
	(24)	**(Surplus) / Deficit for Childcare Litigation Unit**		**-**
(1,920)		Turnover for Financial Services for Schools (FSS)	(1,965)	
1,855		Expenditure for Financial Services for Schools (FSS)	1,754	
	(65)	**(Surplus) / Deficit for Financial Services for Schools (FSS)**		**(211)**
	(1,771)	**Net Surplus on trading operations**		**(2,424)**

Note 31. Agency Services

The Council provides a treasury management service to Hertfordshire Police Authority (HPA) for an annual fee as detailed below. As part of this service the Council prepares an annual treasury management strategy after discussion and agreement with HPA on their future cash flow, borrowing needs and investment. The Council invests on behalf of the HPA any surplus cash in conjunction with agreed investment criteria, outlined in this investment strategy, and also undertakes borrowing for HPA as per their capital funding requirements. The Council officers submit regular reports to HPA committees covering treasury management activity and strategy and meet with the HPA treasurer to discuss the HPA cash flow, future borrowing needs and investment portfolio.

31 March 2011 £000s		31 March 2012 £000s
2,427	Temporary Borrowing	60
(4)	Accrued Interest on managed cash balances	-
2,423		**60**
	The temporary borrowing position comprises:-	
11,922	Cash balances held on behalf of HPA	20,720
(9,498)	Less: Investments placed on behalf of HPA	(20,660)
2,424		**60**

The entries relating to agency services in the Comprehensive Income and Expenditure table are detailed below

31 March 2011			31 March 2012	
£000s	£000s		£000s	£000s
474		Expenditure incurred on behalf of HPA	339	
(466)		Expenditure recovered from HPA	(344)	
	8	**Net expenditure on service for HPA**		**(5)**
	(75)	Fees charged to HPA		(75)
	(67)			**(80)**

The Joint Commissioning Partnership Board was established in 2002 by the Primary Care Trusts (PCTs) in Hertfordshire and Hertfordshire County Council in order to implement and direct joint commissioning for Health and Social Care services. Most of these services are within a Pooled Budget arrangement and HCC only accounts for their contributions in respect of these arrangements (see note 33). However some services are provided where the funding is not pooled because pooling of funding leads to the sharing of risk, and in some areas it is considered that the risk (e.g. in terms of level of funding required) should lie exclusively with one party.

The entries relating to agency services in the Comprehensive Income and Expenditure table are detailed below

31 March 2011			31 March 2012	
£000s	£000s		£000s	£000s
-		Expenditure incurred on behalf of NHS Hertfordshire	25,144	
-		Expenditure recovered from NHS Hertfordshire	(25,144)	
	-	**Net expenditure on service for NHS Hertfordshire**		**(-)**
	-	Fees charged to NHS Hertfordshire		(-)
	-			**(-)**

No 2010-11 comparatives are shown as these are included in the pooled budget figures in Note 33 below. There are short term debtors and creditors held on the Balance Sheet relating to this pooled budget arrangement. These include a creditor of £1.53m with NHS Hertfordshire reflecting their payment in advance of contributions for 2012-13 and amounts due to them in respect of 2011-12.

Note 32. Road Charging Schemes Under the Transport Act 2000

The Council had no road charging schemes during 2011/12.

Note 33. Pooled Budgets

In March 2012 a new partnership agreement was signed between NHS Hertfordshire and Hertfordshire County Council to include all the existing pooled budgets and partnership arrangements (which related to Mental Health and Learning Disability, Equipment Service and Bed-based Care Services from Westgate Healthcare Limited). The arrangements are overseen and directed by the Joint Commissioning Partnership Executive. A further pooled budget was set up for Prevention and Community Wellbeing (including Early Intervention and Carers Support), which commissions preventative services from a range of providers for Adults of all ages.

Summary information for 2011/12, for the pooled budgets that the Council contributed to is shown below:

2010/11				2011/12			
Joint Commissioning Partnership Board £000s	Integrated Community Equipment Service £000s	Westgate – East and North Herts £000s		Mental health, learning disability (was JCPB) £000s	Integrated Community Equipment Service £000s	Westgate – East and North Herts £000s	Prevention and Community wellbeing £000s
			Funding provided to the pooled budget				
(122,359)	(3,062)	(2,528)	– the Council	(167,209)	(2,742)	(2,392)	(12,298)
(177,011)	(1,715)	(616)	– PCTs	(138,067)	(2,264)	(622)	(746)
(299,370)	**(4,777)**	**(3,144)**		**(305,276)**	**(5,006)**	**(3,014)**	**(13,044)**
299,328	3,990	3,099	Expenditure met from the pooled budget	305,188	5,025	2,992	12,505
(42)	**(787)**	**(45)**	**Net surplus / deficit arising on the pooled budget during the year**	**(88)**	**19**	**(22)**	**(539)**

Note 34. Member Allowances

The Council paid the following amounts in respect of Member's Allowances in 2011-12. In addition to the amounts paid to elected members, the table below includes amounts paid on behalf of the members in respect of Income Tax, National Insurance, pension contributions, and employers pension contributions paid by the Council. The table also disclosed the allowances paid to co-opted public members of certain committees.

Paid to individual 2010-11 £000s	Other Costs 2010-11 £000s	Total 2010-11 £000s		Paid to individual 2011-12 £000s	Other Costs 2011-12 £000s	Total 2011-12 £000s
			Elected Members			
1,146	143	**1,290**	Allowances	1,117	143	**1,260**
64	-	**64**	Expenses	64	-	**64**
1,210	143	**1,353**		1,181	143	**1,324**
			Others			
16	-	**16**	Allowances	14	-	**14**
1	-	**1**	Expenses	1	-	**1**
17	-	**17**		15	-	**15**
1,227	143	**1,370**	**Total**	1,196	143	**1,338**

Note 35. Officers' Remunerations

The remuneration paid to the Council's employees earning over £50,000 is shown overleaf. Remuneration is defined in the Accounts and Audit Regulations 2003 as including:

Sums paid to or receivable by an employee:
Remuneration is usually taken to comprise gross pay (i.e. before the deduction of employee's pension contributions), compensation for loss of office and any other payments receivable on the termination of employment, even where these are not taxable and any ex gratia payments other than those for direct reimbursement of costs. Remuneration does not include employer's pension contributions.

Expense allowances chargeable to tax:
For example the profit element of car allowances.

The money value of benefits:
Other benefits, such as car loans, leased cars, travel cards and mobile phones.

The Accounts and Audit Regulations 2009 extended the disclosure requirements for Officers' remuneration. The new requirements provide greater transparency in respect of the total remuneration package for the senior team charged with stewardship of the organisation.

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

- salary, fees and allowances
- bonuses
- expenses allowances
- compensation for loss of employment
- employer's pension contribution
- any other emoluments

The following table sets out the numbers of officers whose remuneration exceeds £50,000 per annum.

2010/11		2011/12
HCC Employees	Remuneration Band (£'s)	HCC Employees
339	50,000 - 54,999	293
237	55,000 - 59,999	221
156	60,000 - 64,999	140
58	65,000 - 69,999	66
38	70,000 - 74,999	33
26	75,000 - 79,999	20
20	80,000 - 84,999	10
15	85,000 - 89,999	13
18	90,000 - 94,999	9
12	95,000 - 99,999	8
5	100,000 -104,999	6
1	105,000 - 109,999	4
2	110,000 - 114,999	0
1	115,000 - 119,999	3
1	120,000 -124,999	1
1	125,000 -129,999	0
0	130,000 -134,999	1
1	135,000 -139,999	0
0	140,000 -144,999	0
0	145,000 -149,999	2
1	150,000 -154,999	0
0	155,000 -159,999	0
1	160,000 -164,999	0
1	165,000 -169,999	1
0	170,000 -174,999	0
0	175,000 -179,999	0
0	180,000 -184,999	0
0	185,000 -189,999	0
0	190,000 -194,999	0
0	195,000 -199,999	0
0	200,000 -204,999	0
1	205,000 -209,999	1

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

Position	Notes	Year	Salary £	Benefits in Kind (*) £	Compensation Payments £	Total Remuneration excluding pension contributions £	Pension Contributions £	Remuneration including Pension Contributions £
Chief Executive - C Tapster		2011/12	203,427	5,018	-	208,445	41,906	250,351
		2010/11	203,427	4,785	-	208,212	41,906	250,118
Director of Environment and Commercial Services - J Wood		2011/12	165,487	1,022	-	166,509	34,721	201,230
		2010/11	167,134	688	-	167,822	34,621	202,443
Director of Children, Schools & Families - J Harris	1	2011/12	79,268	-	36,416	115,684	16,219	131,903
		2010/11	160,004	-	-	160,004	32,301	192,305

Note 1: The Director of Children, Schools & families left on 30th September when the post was deleted and the posts of Assistant Director Social Care and Assistant Director Education assumed responsibilities for their respective areas.

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

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

Position	Notes	Year	Salary £	Benefits in Kind (*) £	Compensation Payments £	Total Remuneration excluding pension contributions £	Pension Contributions £	Remuneration including Pension Contributions £
Director Resources & Performance – M Parsons		2011/12	148,867	-	-	148,867	30,557	179,424
		2010/11	150,701	-	-	150,701	30,385	181,086
Director Health & Community Services – S. Pickup		2011/12	143,000	-	-	143,000	29,458	172,458
		2010/11	134,387	3,689	-	138,076	27,684	165,760
Director Community Protection (CFO) – R Wilsher		2011/12	130,072	1,377	-	131,449	27,084	158,533
		2010/11	126,347	2,722	-	129,069	26,651	155,720
Chief Legal Officer – K Pettitt		2011/12	102,533	-	-	102,533	21,037	123,570
		2010/11	103,749	-	-	103,749	20,866	124,615
Deputy Chief Fire Officer – J Mills		2011/12	101,290	3,142	-	104,432	21,575	126,007
		2010/11	101,290	2,495	-	103,785	21,574	125,359
Director of Education and Early Intervention – J Donovan		2011/12	112,854	-	-	112,854	23,248	136,102
		2010/11	110,708	-	-	110,708	22,805	133,513
Director of Children's Safeguarding & Specialist Services – J Coles		2011/12	115,000	-	-	115,000	23,690	138,690
	2	2010/11	61,014	-	-	61,014	12,569	73,583
Director of Strategy & Partnerships from 1 October 2009 until December 2010 – J Sellgren		2011/12	-	-	-	-	-	-
	3	2010/11	93,750	1,832	-	95,582	19,312	114,894

Note 2: The Director of Safeguarding & Specialist Services was a new position commencing on 20 September 2010.
Note 3: The Director of Strategy & Partnerships started on 1 October 2009. The annualised salary was £125,000. This was a new post following a restructure of senior management in 2009/10. The post holder left 31 December 2010. The post no longer exists following a further restructure of senior management in 2010/11.

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

Note 36. External Audit Costs

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

2010/11 £000s		2011/12 £000s
375	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	275
-	Fees payable to the Audit Commission in respect of statutory inspections	-
26	Fees payable to the Audit Commission for the certification of grant claims and returns for the year	24
2	Fees payable in respect of other services provided by the Audit Commission during the year	2
403	**Total**	**301**

Note 37. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided 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, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/12 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2011/12			**681,514**
Brought forward from 2010/11			11,671
Less: Carry forward to 2012/13 agreed in advance			(8,736)
Agreed budgeted distribution in 2011/12	**75,671**	**608,778**	**684,449**
Less: Actual central expenditure	(71,273)		(71,273)
Less: Actual ISB deployed to schools		(613,540)	(613,540)
Add: Local authority contribution for 2011/12			-
2010/11 in year balance carried forward to 2012/13	**4,397**	**(4,762)**	**(365)**
Carry forward to 2012/13 agreed in advance			8,736
Total carry forward to 2012/13			**8,371**

Comparatives for 2010/11 of the deployment of DSG received are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2010/11			**665,315**
Brought forward from 2009/10			1,370
Carry forward to 2011/12 agreed in advance			(1,311)
Agreed budgeted distribution in 2010/11	**87,661**	**577,713**	**665,374**
Less: Actual central expenditure	(77,301)	-	(77,301)
Less: Actual ISB deployed to schools	-	(577,713)	(577,713)
Add: Local authority contribution for 2010/11	-	-	-
2010/11 in year balance carried forward to 2011/12	**10,360**	**-**	**10,360**
Carry forward to 2011/12 agreed in advance			1,311
Total carry forward to 2011/12			11,671

Note 38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

Credited to Taxation and Non Specific Grant Income

2010/11 £000s		2011/12 £000s
(58,236)	Area Based Grant	-
(22,312)	Revenue Support Grant	(47,393)
-	Council Tax Freeze Grants	(12,567)
-	Early Intervention Grant	(34,080)
-	Learning Disability & Health Reform grant	(37,513)
-	Local Services Support Grant	(2,072)
-	Fire Revenue Grant	(162)
-	New Homes Bonus	(770)
-	NHS funding for social care	(11,025)
(4,144)	Fire Pension Top-up Grant	(3,538)
-	Local Authority Business Growth Incentive Scheme	-
(75,164)	Capital Grants & contributions	(172,905)
(159,856)	**Total**	**(322,025)**

Credited to Services

2010/11 £000		2011/12 £000
	Young People's Learning Agency	
(107,957)	Grant for Sixth Formers	(57,086)
(2,265)	Post 16 Teachers Pay Grant	(1,699)
(1,346)	Other grants less than £1m each	(906)
	Department for Children, Schools and Families	
(665,374)	Dedicated Schools Grant	(681,514)
(72,162)	Standards Fund	-
(35,491)	School Standards Fund	-
(27,854)	Sure Start	-
-	Pupil Premium	(7,910)
(1,923)	Gateway to education services	-
(3,344)	Other grants less than £1m each	(2,165)

Credited to Services continued ….

2010/11 £000		2011/12 £000
	Department of Health	
(4,105)	Social Care Reform	**-**
(2,128)	Winter pressures	(2,553)
-	Drug Intervention Programme	(470)
(2,471)	Other grants less than £1m each	(542)
	Youth Justice Board	
(852)	Youth Offending Team Grants	-
-	**Youth Justice Board Grant**	(1,125)
	Department for Communities and Local Government	
-	Supporting people – services and implementation	**-**
-	New Burdens	**-**
(1,871)	PFI Credits	(1,871)
(363)	Other grants less than £1m each	(76)
	Home Office	
(2,444)	Unaccompanied Asylum Seeking Children	(2,004)
(780)	Drug Intervention Programme	(272)
(260)	Other grants less than £1m each	(80)
	Children's Workforce Development Council (CWDC)	
(700)	Other Grants less that £1m each	(1,548)
	Training & Development Agency	
(897)	Other Grants less that £1m each	(711)
	Department of Transport	
-	Local Sustainable transport fund	(1,157)
-	Growing Places Funds	(1,227)
(153)	Other Grants less that £1m each	-
	Skills Funding Agency	
-	Personal & community Development Learning	(1,156)
-	Formal 1st Steps	(570)
(1,968)	Other Grants less that £1m each	(947)
	Various other bodies	
-	Music Services Grant	(1,333)
(2,087)	Other grants less than £1m each	(1,291)
(938,795)		**(770,213)**

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

Capital Grants Received in Advance

2010/11 £000s		2011/12 £000s
54,030	Balance at start of year	82,876
110,658	New grants received in advance	93,888
(81,812)	Application of grants used in year	(79,566)
82,876	**Balance at end of year**	**97,200**

Note 39. Related Parties

Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. Grant receipts outstanding as at 31 March 2012 are shown in Note 38. These grants are in addition to the Council's share of the revenue support grant and redistributed business rates income as calculated by central government.

Members and Officers

Mr Terry Douris, a member of the County Council, supplies various Hertfordshire County Council schools drama lighting, sound and audio-visual equipment; payments made during the year for these supplies were approximately £11k.

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

Total of Council's transactions with the organisation 2010/11 £s	Name	Organisation	Total of Council's transactions with the organisation 2011/12 £s
3,080,791	Richard Thake (10/11) David Billing (10/11)	Hertfordshire Career Services Ltd	**n/a**
173,833	Stuart Pile (10/11 and 11/12) Peter Ruffles (10/11 and 11/12) Keith Emsall (11/12)	Hertfordshire Groundwork Trust	**260,682**
63,053	Bryan Hammond (10/11 and 11/12)	Community Development Agency for Hertfordshire	**n/a**
107,668	Sally Newton (10/11 and 11/12)	Herts AID	**177,122**
58,069	Derek Scudder (10/11 and 11/12) Barbara Lamb (11/12)	Watford Sheltered Workshops Ltd	**64,279**
72,147	Sara Johnston (10/11 and 11/12)	Welwyn Hatfield Women's Refuge	**65,942**
78,382	Matthew Hurst (10/11 and 11/12)	Hertfordshire Care Trust	**n/a**
28,107	Barbara Lamb (10/11)	Signpost Ltd	**n/a**
12,287	Fiona Hill (10/11)	Royston Day Centre	**n/a**
9,718	Nigel Bell (10/11 and until 06/12/11)	West Watford Community Association	**8,061**
213,776	Richard Roberts (10/11 and 11/12) Chris Hayward (11/12)	Hertfordshire Community Foundation	**113,130**
-	Robert Gordon (11/12)	University of Hertfordshire	**359,021**
-	Francis Button (11/12)	MacIntyre Housing Association	**64,391**
-	Roy Wilsher (11/12)	Chief Fire Officers' Association	**17,688**
3,897,831	**Total**		**1,130,316**

n/a = reflects that there are no related party relationships with these organisation, however the Council may still be transacting with them.

Where there is a new entry for 2011/12 the comparative level of total transactions with the organisation have not been included in the 2010/11 details. The amounts disclosed in the 2010/11 accounts have also been shown for comparative purposes even if no ongoing relationship exists.

In addition to the above, although no material transactions occurred during 2011/12, it should be noted that the following senior officers sit on the Boards of the following organisations which are related parties:

C. Tapster – Director of Exemplas
M. Parsons – Director of 3 BSF PFI Joint Ventures.
R. Wilsher – Director of Chief Fire Officers Association (CFOA) National Resilience Ltd, Director of CFOA Publications, Member / Adviser to Fire Service College Management Board, Director of Firefighters Memorial Trust (charity) and Director of Herts in Trust (charity)

<u>Hertfordshire County Council Pension Fund</u>

The Council administers the Pension Fund on behalf of its employees and those of District Councils within the county and other admitted bodies. In 2009/10 cash balances were mainly invested by investment managers appointed by the Pension Fund with smaller amounts being pooled with Council cash balances for which the Pension Fund received a contribution in lieu of interest of £472,036. On 1 April 2010, pension fund cash was separated from Hertfordshire County Council funds and from that date pensions cash was separately invested and all interest received applied directly to the Pension Fund. No investments were made by Hertfordshire County Council on behalf of the Pension Fund and therefore, no interest was due.

<u>Locality Budgets</u>

Each elected member of the County Council has £10,000 per year to spend on grants in their local community. The approach is flexible and based on two fundamental principles. The funding from the Locality Budgets scheme must be used for purposes which promote the social, economic or environmental wellbeing of Hertfordshire having regard to the Council's sustainable community strategy. Locality Budgets cannot be used for purposes which would be contrary to the County Council's prevailing policies or be used for any purposes prohibited by law.

Note 40. Capital Expenditure and Capital Financing

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

2010/11 £000s			2011/12 £000s	
	621,342	Opening Capital Financing Requirement		596,224
		Capital investment		
150,706		Property, Plant and Equipment	168,458	
-		Investment Properties	-	
718		Intangible Assets	2,406	
14,457		Revenue Expenditure Funded from Capital under Statute	10,373	
	165,881			181,237
		Sources of finance		
(33,866)		Capital receipts	(928)	
(20,385)		Capital Reserves	(17,310)	
(91,913)		Government grants and other contributions	(131,774)	
		Sums set aside from revenue:		
(26,046)		Minimum Revenue Provisions	(25,315)	
(9,556)		Direct revenue contributions	(25,242)	
(9,232)		Revenue Expenditure Funded from Capital	(5,955)	
	(190,998)			(206,524)
	596,224	**Closing Capital Financing Requirement**		**570,937**
		Explanation of movements in year:		
	-	Increase in the underlying need to borrow (supported by government financial assistance)		-
	(25,118)	Increase in the underlying need to borrow (unsupported by government financial assistance)		(25,289)
	-	Assets acquired under finance leases		-
	-	Assets acquired under PFI/PPP contracts		-
	(25,118)	**Increase/(decrease) in Capital Financing Requirement**		**(25,289)**

Note 41. Leases

This note supports the Balance Sheet in respect of finance leases but these items are unaffected by the restatement of some 2010-11 balances. The restatement around leases at Note 1.3 relates only to the disclosures around operating leases, which do not impact the Balance Sheet.

Council as Lessee

Finance Leases

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

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

31 March 2011 £000s		31 March 2012 £000s
32,187	Other Land and Buildings	32,804
1,529	Vehicles, Plant, Furniture and Equipment	1,100
33,716	**Total**	**33,904**

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

31 March 2011 £000s		31 March 2012 £000s
	Finance lease liabilities (Net Present Value of minimum lease payments):	
337	– current	277
775	– non-current	497
139	Finance costs payable in future years	90
1,251	**Minimum Lease Payments**	**865**

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

31 March 2011			31 March 2012	
Finance Lease Liabilities £000s	Minimum Lease Payments £000s		Finance Lease Liabilities £000s	Minimum Lease Payments £000s
337	386	Not later than one year	277	310
676	753	Later than one year and not later than five years	430	482
99	109	Later than five years	68	73
1,112	**1,251**		**775**	**865**

Operating Leases

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

31 March 2011 Restated		31 March 2012
£000s		£000s
5,454	Not later than one year	4,704
15,115	Later than one year and not later than five years	13,355
23,849	Later than five years	20,905
44,418		**38,964**

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

2010/11		2011/12
£000s		£000s
3,405	Land & Buildings	3,634
1,983	Vehicles	1,820
5,388		**5,454**

Council as Lessor

Finance Leases

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

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

31 March 2011		31 March 2012
£000s		£000s
	Finance lease liabilities (Net Present Value of minimum lease payments):	
78	– current	81
3,634	– non-current	3,553
12,276	Finance income receivable in future years	11,659
2,359	Unguaranteed residual interest in property	2,359
18,347	**Minimum Lease Payments**	**17,652**

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

31 March 2011 Gross investment in the lease £000s	31 March 2011 Minimum Lease Payments £000s		31 March 2012 Gross investment in the lease £000s	31 March 2012 Minimum Lease Payments £000s
695	695	Not later than one year	695	695
2,779	2,779	Later than one year and not later than five years	2,779	2,779
14,873	12,514	Later than five years	14,178	11,819
18,347	**15,987**		**17,652**	**15,293**

Operating Leases

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

31 March 2011 Restated £000s		31 March 2012 £000s
5,584	Not later than one year	5,192
20,415	Later than one year and not later than five years	20,199
123,252	Later than five years	118,276
149,251		**143,667**

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

2010/11 £000s		2011/12 £000s
4,418	Land & Buildings	5,584
-	Vehicles	-
4,418		**5,584**

Note 42. Private Finance Initiatives and Similar Contracts

The Code of Practice 2011/12 requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the Council, public services related to infrastructure. In addition, IFRIC 12 requires the Council to:

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

Children's Services
The Council entered into a PFI scheme in June 2007 for the design, finance and maintenance of seven new children's homes, a family assessment centre, a disability resource centre, a children's centre and the refurbishment of five family support centres, through a private sector operator, with a facility for 25 years. The PFI scheme involves rebuilding /refurbishing existing Council buildings and the operation of those centres.

The units became operational at various times from 2007/08 to 2009/10. The scheme is due to end on 31 March 2033 at which stage all the assets will revert to the Council. The value of these assets (Land & Buildings) following revaluation as at the dates they became operational were £20.652m as at 31 March 2012 (£17.92m as at 31 March 2011). The PFI assets used are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

In 2010/11 a number of the homes were converted from six to seven bed units. This was a low cost change achieved by converting a staff sleep in room to a resident's room; any revenue costs as a result of this change will be minimal. The Council's PFI obligation for the capital (finance lease) element is:

31 March 2011				31 March 2012		
Capital £000s	Interest £000s	Service £000s		Capital £000s	Interest £000s	Service £000s
585	1,254	876	Payable in 2012/13	510	1,216	1,054
2,139	4,654	4,525	Payable within two to five years	2,215	4,510	4,792
3,424	4,925	6,688	Payable within six to ten years	3,660	4,692	6,946
4,649	3,606	7,939	Payable within eleven to fifteen years	4,816	3,292	8,509
5,248	1,957	11,189	Payable within sixteen to twenty years	5,632	1,600	11,553
2,864	244	4,497	Payable within twenty-one to twenty-five years	1,491	75	2,276
18,909	**16,640**	**35,714**	**Total**	**18,324**	**15,386**	**35,130**

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

The private sector operator is paid for its services over the period of the scheme by means of an annual unitary charge which is allocated between capital and service elements. The service element includes a full FM service, caretaking services, cleaning and utility (gas, electricity and water) costs.

The Council's key risks in connection with this PFI contract is that the SPV (Special Purpose Vehicle) Young Herts, Operator ceases to trade. If this occurs the finance providers, Sumitomo Mitsui Banking Corporation (SMBC) would step in and replace them with a new operator. This would create some short term operational difficulties.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed.

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

2010/11 £000s		2011/12 £000s
19,462	Balance outstanding at start of year	18,909
(553)	Payments during the year	(585)
-	Capital expenditure incurred during the year	-
-	Other movements	-
18,909	**Balance outstanding at end of year**	**18,324**

Building Schools for the Future

In January 2011 the Council entered into a contract with Balfour Beatty Education Limited under the national Building Schools for the Future (BSF) programme. This contract is for the rebuilding of Marriots and Lonsdale schools in Stevenage. Balfour Beatty Education Ltd will design, build, finance and provide facilities management services to the schools over the 25 year life of the contract. At the end of the 25 year contract the ownership of the facilities will rest with the Council. The school facilities are expected to come into operation in September 2012. Once operational these schools will be recognised as assets within the Councils balance sheet in 2012/13.

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

31 March 2011				31 March 2012		
Capital £000s	Interest £000s	Service £000s		Capital £000s	Interest £000s	Service £000s
-	-	-	Payable in 2012/13	235	2,243	1,048
2,327	14,100	6,444	Payable within two to five years	3,116	15,666	7,084
5,082	18,153	9,958	Payable within six to ten years	5,255	17,673	10,563
6,473	15,512	12,904	Payable within eleven to fifteen years	7,097	14,891	13,201
9,644	11,804	15,425	Payable within sixteen to twenty years	9,878	10,895	16,844
13,836	6,618	19,059	Payable within twenty-one to twenty-five years	15,692	5,280	18,649
5,879	553	4,709	Payable within twenty-six to thirty years	1,968	92	1,110
43,241	**66,741**	**68,499**	**Total**	**43,241**	**66,741**	**68,499**

There are currently no outstanding liabilities to pay to contractors for capital expenditure incurred.

Waste Service

On 27July 2011 the Council entered into a contract with Veolia Environmental Services. This contract is for the design, build and subsequent operation of a residual waste facility. Veolia have submitted applications for the necessary planning approval and environmental permit required to construct and operate this facility. Subject to the application for planning approval being successful it is expected that the plant will become fully operational in March 2016.

The contract specifies the minimum standards that have to be adhered to and also specifies the minimum acceptable condition to which the buildings and any plant and equipment must be maintained. The contractor is obliged to hand over the infrastructure at the end of the contract in a specified condition at nil cost.

In terms of the overall project the estimated costs to the authority of this scheme would be over and above the existing budgets and Waste Infrastructure (was PFI) credits, are estimated to be £144m, i.e. the net costs to the authority of the chosen route compared with the likely costs of continuing as we are. This compares to an overall affordability gap of £535m if nothing was to be done.

Once operational the facility will be recognised as an asset within the Councils balance sheet.

No payments have currently been made to Veolia under this contract in 2011-12 and are not expected to be made until 2015/16 at the earliest.

Note 43. Impairment Losses

The 2010/11 Impairment loss included the charge to the General Fund of accumulated impairments to 31 March 2010, and was separately disclosed on the Comprehensive income and Expenditure Statement under 'Exceptional Items'.

2010/11 £000s		2011/12 £000s
5,007	Icelandic Investments	(580)
5,007	**Total**	**(580)**

Icelandic Investments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £28m deposited across these institutions, with varying maturity dates and interest rates.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council are being determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7th October 2008. A latest creditor progress report issued by the administrators Ernst and Young, in November 2011, outlined that the return to creditors was currently projected to be 86p to 90p in the £ by April 2013. 68% of the claim has been repaid, as at March 2012. The Council has therefore decided to recognise an impairment based on it recovering 88% of its claim.

Therefore in calculating the impairment the Council has made the following assumptions regarding the timing of recoveries:

July	2009	16.13%}	
Dec	2009	12.66%}	Received
March	2010	6.19%}	
July	2010	6.27%}	
Oct	2010	4.10%}	
Jan	2011	4.71%}	
April	2011	6.25%}	
July	2011	4.05%}	
Oct	2011	4.18%}	
Jan	2012	3.32%}	
April	2012	3.79%	
July	2012	3.50%	
Oct	2012	3.50%	
Jan	2013	3.50%	
April	2013	5.81%	

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

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/12 £'000	Carrying Amount £'000	Impairment £'000
15/09/08	15/04/09	£2m	6.00%	1,363	389	463
19/09/08	23/12/08	£5m	6.05%	3,406	970	1,160

Kaupthing, Singer and Friedlander Ltd (KSF)

The latest creditor report issued by the administrators Ernest and Young, in April 2012, outlined that the return to creditors was projected to be in the range of 81p to 86p in the £. The Council has recognised an impairment based on it recovering 83.5% of its claim, (the mid point of the range estimated by the administrators).

In calculating the impairment the Council has therefore made the assumption that the total recovery will be split as set out below:

July	2009	20%}	
Dec	2009	10%}	Received
April	2010	5%}	
July	2010	10%}	
Dec	2010	8%}	
May	2011	5%}	
Oct	2011	5%}	
May	2012	10%	
Jan	2013	5%	
Jan	2014	5.5%	

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

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/12 £'000	Carrying Amount £'000	Impairment £'000
04/01/07	04/01/11	£2m	5.46%	1,312	394	519
14/08/07	16/08/10	£2m	6.35%	1,272	407	501

Landsbanki Islands hf

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. The Reykjavik District Court issued a verdict on 1 April 2011 confirming the local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. In October 2011, the Icelandic Supreme Court upheld the priority status assumed in the Council's accounts, and a repayment of approximately 30% was received in February 2012 and approximately 12.2% was received in May 2012. Distributions were made in the currencies of the adjusted assets, but due to currency controls the repayment of Icelandic Kroner has been paid into an interest earning Escrow account in Iceland. This amount is treated as a new investment, and its carrying value has been adjusted for exchange rate differences as at 31 March 2012.

The Council has estimated recovery at 100% of its claim, which includes interest accrued up to the original maturity date, and assumes that the total recovery will be split as set out below:

Feb 2012	30%	}Received
May 2012	12.2%	}
Dec 2012	7%	
Dec 2013	7%	
Dec 2014	7%	
Dec 2015	7%	
Dec 2016	7%	
Dec 2017	7%	
Dec 2018	7%	
Dec 2019	8.8%	

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009. Details of the Council's deposits with Landsbanki Islands hf and the associated impairment are shown below:

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/12 £'000	Carrying Amount £'000	Impairment £'000
11/07/08	15/10/08	£3m	5.90%	887	1,743	1,131
05/08/08	31/10/08	£5m	5.85%	1,476	2,906	1,822
29/08/08	28/11/08	£2m	5.83%	591	1,164	676

Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (New Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Based on this information, it remains the case that if local authority deposits retain priority status, 100% of claims will be repaid. As with Landsbanki Islands, priority status was confirmed by the Icelandic Supreme Court in October 2011.

The Council has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 22 April 2009 in the future. The impairment therefore reflects the loss of interest to the Council until the funds are repaid.

Repayment was received in February 2012, but as with Landsbanki was paid in a basket of currencies, with the Icelandic Kroner being retained in an Escrow account in Iceland. The carrying amounts equals the value in this Escrow account, adjusted for interest earned and currency differences as at 31 March 2012.

Date Invested	Maturity Date	Amount Invested	Interest Rate	Recovered by 31/3/12 £'000	Carrying Amount £'000	Impairment £'000
18/04/07	20/04/09	£2m	6.00%	1,675	381	436
15/05/07	17/05/10	£3m	6.00%	2,647	379	428
15/02/08	16/02/09	£2m	5.42%	1,666	603	456

Accounting

The impairment loss recognised in the Comprehensive Income and Expenditure Account in 2011/12, a reduction of -£0.318m, (£7.853m cumulative to 31 March 2012) has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Council until monies are recovered. Further adjustments to the assumptions will be made in future accounts as more information becomes available.

The impairment offsets notional interest credited to the Comprehensive Income and Expenditure account: amounts are as shown below. Interest amount received in 2007/08 and 2008/09 prior to the collapse of these banks are also shown.

All monies received since October 2008 have been treated as repayments of principal.

Bank	Credited 2007/08 £000	Received 2007/08 £000	Credited 2008/09 £000	Received 2008/09 £000	Credited 2009/10 £000	Credited 2010/11 £000	Credited 2011/12 £000
Heritable	-	-	224.7	-	254.7	168.5	104
KSF	189.9	109.2	214.9	127.3	75.4	70.3	45
Landsbanki	-	-	1,050.7	-	489.6	450.1	482
Glitnir	287.2	-	431.7	301.8	422.5	413.2	417
Total	477.1	109.2	1,922.0	429.1	1,242.2	1,102.1	1,048

In the 2008/09 and 2009/10 financial years, the Council took advantage of the Capital Financing Regulations to defer the impact of impairment on the General Fund. As at 31 March 2010, a net balance of £5.15m was held on the Financial Instruments Adjustments Account (FIAA), comprising £8.319m impairment less £3.164m interest owed. Under the regulations, the Council has transferred the balance on the FIAA to the General Fund during 2010/11, as the protection offered by the regulations has expired. Accordingly there has been no movements related to the FIAA during 2011/12 and there is no balance on the FIAA as at 31st March 2012. The comparatives for 2010/11 are shown below:

Bank	Balance on FIAA at 31st March 10 £000	2010/11 Amount transferred to Financial Instruments Adjustment Account £000	Balance on FIAA at 31st March 11 £000
Heritable	1,308.6	(1,308.6)	-
KSF	1,218.0	(1,218.0)	-
Landsbanki	2,525.1	(2,525.1)	-
Glitnir	103.1	(103.1)	-
Total	5,154.8	(5,154.8)	-

Note 44. Capitalisation of Borrowing Costs

There was no capitalisation of borrowing costs in 2011/12.

Note 45. Termination Benefits and Exit Packages

This note supports the Balance Sheet and has not been affected by the restatement of some 2010-11 balances.

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £12,793k (£18,379k equivalent in 2010/11) – the table below details the number of exit packages and total cost per band. Of this total in 2011-12, £374,995 is payable to the Chief Executive and £194,612 was paid to the Director of Children, Schools & Families in the form of redundancy and enhanced pension benefits. The remaining £12,224k was payable to 838 officers who were either made redundant as part of the Authority's rationalisation of these services or had departures agreed with their line management.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£	£
£0 – £20,000	59	197	346	455	405	652	3,061,931	4,006,688
£20,001 – £40,000	15	17	127	99	142	116	4,099,137	3,125,336
£40,001 - £60,000	-	2	71	30	71	32	3,541,839	1,537,992
£60,001 - £80,000	2	5	37	12	39	17	2,721,080	1,169,775
£80,001 - £100,000	1	2	15	7	16	9	1,463,317	804,429
£100,001 - £150,000	-	1	22	9	22	10	2,716,720	1,212,543
£150,001 - £200,000	1	-	2	3	3	3	481,468	561,620
Greater than £200,000	-	-	1	1	1	1	294,186	374,995
TOTAL	**78**	**224**	**621**	**616**	**699**	**840**	**18,379,678**	**12,793,378**

Note 46. Pensions Schemes Accounted for as Defined Contributions Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers Pension Agency (TPA) in the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 14.1% for 2011/12.

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

Council contributions to the Teacher's Pensions Agency in respect of teachers' retirement benefits have amounted to £44.92m for 2011/12 (£52.944m in 2010/11).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 47.

Note 47. Defined Benefit Pension Schemes

<u>Participation in Defined Benefit Pension Schemes:</u>

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

The Council participates in three pension schemes:

- The Local Government Pension Scheme for employees other than teachers and fire-fighters. This scheme is administered by Hertfordshire County Council and is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

- The Fire-fighters pension scheme – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liability. Employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

- The Teachers pension scheme – further information relating to this scheme which provides retirement benefits for teaching staff is shown in the note to the accounts "Defined Contribution Scheme – Teachers' Pension Scheme". IAS 19 does not apply to the Council's contribution to this pension scheme.

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

The pension increase assumption, as with the accounting exercise in 2010, will be in line with the Consumer Price Index (CPI) which will be calculated at 0.8% per anuum below RPI.

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

Transactions relating to retirement benefits:

The Council recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

2010/11			2011/12	
Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s		Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s
		Comprehensive Income and Expenditure Statement		
		Cost of Service:		
57,814	8,900	– Current service cost	45,056	7,900
(173,074)	(33,000)	– Past service cost*	365	3,000
564	-	– Settlements and curtailments*	(12,255)	-
		Financing and Investment Income and Expenditure:		
95,682	15,900	– Interest cost	83,384	15,500
(71,485)	-	– Expected return on scheme assets	(74,877)	-
(90,499)	**(8,200)**	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**41,673**	**26,400**
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
(274,463)	(32,624)	– Actuarial gains and losses	141,069	14,228
(364,962)	**(40,824)**	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**182,742**	**40,628**

*Due to the value being of a higher materiality level and to avoid distorting the usefulness of these accounts for year on year or inter Council comparison, the Past Service Costs along with Settlements and Curtailments have been disclosed separately on the Comprehensive Income & Expenditure Statement.

2010/11			2011/12	
Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s		Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s
		Movement in reserves statement:		
90,499	8,200	– Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(41,673)	(26,400)
		Actual amount charged against Council Tax for pensions in the year		
59,810	3,432	– employers' contributions payable to scheme	52,900	3,390
-	4,144	– top-up grant contribution	-	3,538
4,032	-	– retirement benefits payable to pensioners	4,328	0
154,341	**15,776**		**15,555**	**(19,472)**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011/12 is a gain of £447.5m.

<u>Assets and liabilities in relation to retirement benefits:</u>

Reconciliation of present value of the scheme liabilities

31 March 2011			31 March 2012	
Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s		Local Government Pension Scheme £000s	Fire-Fighters Pension Scheme £000s
1,868,863	328,700	Opening balance at 1 April	1,534,605	280,300
57,814	8,900	Current service costs	45,056	7,900
95,682	15,900	Interest costs	83,384	15,500
17,131	1,900	Contributions by scheme participants	15,258	1,800
(271,055)	(31,900)	Actuarial gains and losses	86,525	14,400
(55,800)	(10,200)	Benefits paid	(61,388)	(8,900)
(173,074)	(33,000)	Past service costs	365	3,000
(4,032)	-	Entity combinations	(4,328)	-
3,868	-	Curtailments	3,300	-
(4,792)	-	Settlements	(26,901)	-
1,534,605	**280,300**	**Closing balance at 31 March**	**1,675,876**	**314,000**

Reconciliation of fair value of the scheme assets

31 March 2011 Local Government Pension Scheme £000s	31 March 2011 Fire-Fighters Pension Scheme £000s		31 March 2012 Local Government Pension Scheme £000s	31 March 2012 Fire-Fighters Pension Scheme £000s
1,012,130	-	Opening balance at 1 April	1,106,675	-
71,485	-	Expected return on assets	74,877	-
3,407	724	Actuarial gains and losses	(52,579)	172
59,810	7,576	Employer contributions	50,935	6928
17,131	1,900	Contributions by scheme participants	15,258	1,800
4,032	-	Contributions in respect to unfunded benefits	4,328	-
(55,800)	-	Benefits paid	(61,387)	-
(4,032)	-	Unfunded benefits paid	(4,328)	-
-	(10,200)	Pension and lump sum expenditure	-	(8,900)
(1,488)	-	Settlements	(11,346)	-
1,106,675	**-**	**Closing balance at 31 March**	**1,122,433**	**-**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £22.5m, and in 2010/11 the return was £90.5m.

Scheme History

	2007/08 £000s	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s
Present Value of Liabilities:					
Local Government Pension Scheme	(1,138,562)	(1,129,418)	(1,868,863)	(1,534,605)	(1,675,876)
Fire-fighters Pension Scheme	(215,600)	(224,700)	(328,700)	(280,300)	(314,000)
Fair value of assets in the Local Government Pension Scheme	950,976	755,107	1,012,130	1,106,675	1,122,433
Surplus / (Deficit) in the Scheme	**(403,186)**	**(599,011)**	**(1,185,433)**	**(708,230)**	**(867,443)**
Compromising of:					
Local Government Pension Scheme	(187,586)	(374,311)	(856,733)	(427,930)	(553,443)
Fire-fighters Pension Scheme	(215,600)	(224,700)	(328,700)	(280,300)	(314,000)
Total	**(403,186)**	**(599,011)**	**(1,185,433)**	**(708,230)**	**(867,443)**

The above asset values as at 31 March 2012 are at bid value as required under IAS 19. For previous accounting periods the value of assets may have been reported at mid-market value. The fair value of assets was taken as at bid value at 31 March 2011 and, on the grounds of materiality; figures for previous accounting periods have not been restated.

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability as at 31 March 2012 of £867.4m has a substantial impact on the net worth of the Council as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean:-

- the deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, and

- in the case of Fire-fighters pensions the underlying principle is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The total contributions estimated to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £52.9m. Expected contributions for the Fire- fighters Pension Scheme in the year to 31 March 2013 have not been estimated as being an unfunded scheme, the employer contribution depends on the benefits that will be paid in the year, the employee contributions and transferred in amounts received.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Fire-fighters Scheme and the Local Government Pension Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary are shown overleaf:

The principal assumptions used by the actuary have been:

2010/11			2011/12	
Local Government Pension Scheme	**Fire-Fighters Pension Scheme**		**Local Government Pension Scheme**	**Fire-Fighters Pension Scheme**
		Long-term expected rate of return on assets in the scheme:		
7.5%	n/a	– Equity investments	6.2%	n/a
4.9%	n/a	– Bonds	4.0%	n/a
5.5%	n/a	– Property	4.4%	n/a
4.6%	n/a	– Cash	3.5%	n/a
		Mortality assumptions:		
		– Longevity at 65 for current pensioners:		
21.0 years	27.9 years	o Men	21.0 years	27.9 years
23.8 years	30.8 years	o Women	23.8 years	30.8 years
		– Longevity at 65 for future pensioners:		
22.9 years	29.5 years	o Men	22.9 years	29.5 years
25.7 years	32.3 years	o Women	25.7 years	32.3 years
3.6%	3.6%	Rate of inflation	3.3%	3.3%
5.1%	4.6%	Rate of increase in salaries	4.8%	3.5%
2.8%	2.8%	Rate of increase in pensions	2.5%	2.5%
5.5%	5.5%	Rate for discounting scheme liabilities	4.8%	4.8%
75%	90%	Take-up of option to convert annual pension into retirement lump sum	75%	90%

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

2010/11 %		2011/12 %
73	Equity Investments	69
19	Bonds	18
4	Property	6
4	Cash	7
100	**Total**	**100**

History of experience gains and losses

The actuarial experience gains or (losses) identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
LGPS Differences between the expected and actual return on assets	(12.1)	(40.6)	19.6	1.72	(4.66)
Experience gains and losses on liabilities	5.9	(0.6)	0.2	5.22	(1.20)
Fire-fighters pension scheme differences between the expected and actual return on assets	(2.9)	3.4	2.6	4.32	(0.22)

Defined Contribution Scheme – Teachers' Pension Scheme

The scheme is a defined benefit scheme, administered by the Teacher's Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits are fully accrued in the pension liability shown in the preceding note. During 2011/12 the cost of these unfunded discretionary awards amounted to £4.276 million (2010/11 - £4.032 million).

Note 48. Contingent Liabilities

At 31 March 2012 the Council was aware of the following potential liability it may face in the future. This item has not been reflected in the accounts as there is no certainty that an actual liability may arise, or because there is uncertainty as to the amount of liability or when it will arise. However a reserve of £2 million has been established reflecting an estimate of the potential liability.

The Contingent liability identified relates to:

Municipal Mutual Insurance

In common with many other local authorities, the Council insured with the Municipal Mutual Insurance (MMI) Company until 31 March 1993 and continues to be dependent on its continued solvency for the payment of a significant number of claims. The latest Scheme of Arrangement issued by MMI as at 31 March 2012 indicates that the amount liable to clawback from the Council should the Company not remain solvent is estimated at a maximum amount of £4.613 million based on known claims. The proportion of this amount that would be due from the Council is highly uncertain, but there is also the possibility that further claims could be brought under the same entitlement, so this figure does not necessarily represent the Council's total maximum exposure.

Judgement was handed down on 28 March 2012 by the Supreme Court in respect of the Employers' Liability Policy Trigger Litigation relating to mesothelioma claims. The Supreme Court found against the Company. The judgement has significant implications for the 729 Scheme Creditors who are party to the contingent Scheme of Arrangement sanctioned by the Court in January 1994. The Board of Directors is now seeking legal, financial and actuarial advice from its professional advisers in order to determine the full implications of the judgement and most appropriate way forward for MMI. The Scheme Administrator and the Creditors' Committee will also be involved in the process as will MMI's regulator the Financial Services Authority.

Note 49. Contingent Assets

There were no contingent assets as at 31 March 2011/12

Note 50. Nature and Extent of Risks Arising from Financial Instruments

Key Risks

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

- Credit risk: the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk: the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk: the possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk: the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Overall Procedures for Managing Risk

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

- By formally adopting the requirements of the Code of Practice (adopted on 23rd February 2010 by the members of the County Council)
- By approving annually in advance prudential indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

For the 2011/12 financial year the prudential indicators and treasury management strategy were reported and approved at the County Council's meeting on the 18 February 2011. The annual treasury management strategy outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure, which can be summarised as follows:

- To reduce exposure of cash balances by funding the 2011/12 Capital Programme from balances and seeking opportunities to repay debt early,
- Only specified investments to be made i.e. with UK government or local authorities and institutions with high credit ratings,
- Institution and Group limits are applied,
- Only lending to banks outside the UK if the country has a sovereign rating of AAA,
- UK Investments limited to a maximum of 364 days and Overseas to 3 months.
- The criteria specify action to be taken upon credit rating downgrades, or notice of potential downgrades.

Given the economic climate throughout 2011/12 the Council actually operated to criteria which were even stricter than and well within those laid out in the Treasury Management Strategy.

Actual performance is reported annually to the Council's Audit Committee. These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

<u>Credit risk</u>

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's treasury management strategy for 2011/12 set out the minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard and Poor's.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table (from an average of the default rates from Fitch, Moody's and Standard and Poor's) gives details of corporate finance average cumulative default rates (including financial organisations) for the period 1981 – 2010 on investments out to five years. There were no investment grade defaults at all in 2010, so there is no need to make an adjustment for market conditions at 31 March 2011. The risk of default by trade debtors is based on the average amount of debt written off as a percentage of total debt over the last three financial years (2007/08 to 2009/10).

Estimated maximum exposure to default 2011 £000s	Deposits with banks and financial institutions	Amount at 31 March 2012 £000s	Historical experience of default %	Adjustment for market conditions at 31 March 2012 ^	Estimated maximum exposure to default 2012 £000s
		(a)	(b)	(c)	(a * b)
-	AAA rated counterparties	129,161	-	1	-
4	AA rated counterparties	-	-	-	-
-	A rated counterparties	-	-	-	-
19	BBB rated counterparties	2,089	0.22%	1	5
-	Other counterparties	-	-	1	
60	Trade debtors	34,860	0.34%		119
83		**166,110**			**124**

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £28m invested in this sector at that time, £10m of which was in breach of the Council's criteria. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. The impact on the principal invested and interest income has been mitigated in the accounts according to government regulations (see the impairment disclosure note for details). These outstanding Icelandic Investments have been excluded from the exposure to credit risk table above.

Following these events and the continued volatility in financial markets, the Council implemented even stricter criteria for investment counterparties in 20011/12. At the balance sheet date, £2m out of a total of £131m (excluding the Icelandic Investments), remained invested with counterparties no longer meeting the minimum investment criteria.

Financial Assets that are past due

The Council does not generally allow credit for its trade debtors. The amount of debt past its due date for payment amounted to £7.7 million. The past due amount can be analysed by age as follows:

31 March 2011 £000s		31 March 2012 £000s
3,864	Not later than three months	1,114
562	Three to nine months	2,724
2,005	More than nine months	3,883
6,431		**7,721**

Liquidity risk

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

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

Refinancing and Maturity Risk

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

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

This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

31 March 2011 £000s		31 March 2012 £000s
2,985	Not later than one year	31,398
-	One to two years	
-	Two to seven years	
8,645	Seven to fifteen years	11,645
278,841	More than fifteen years	248,880
290,471		**291,923**

The maturity analysis of financial assets is as follows

31 March 2011 £000s		31 March 2012 £000s
71,483	Not later than one year	135,038
4,319	One to two years	1,316
787	Two to three years	691
4,015	More than three years	3,350
80,604		**140,395**

The Icelandic investments are included in the table above on the basis of the anticipated recoveries over future years.

All trade and other payables are due to be paid in less than one year and trade debtors of £20 million are not shown in the table above.

Market risk

Interest rate risk

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

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

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

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

According to this assessment strategy, at 31 March 2011, if interest rates had moved by 1% with all other variables held constant, the financial effect would be:

2010/11 1% Increase £000s	2010/11 1% Decrease £000s		2011/12 1% Increase £000s	2011/12 1% Decrease £000s
499	-	Increase in interest payable on variable rate borrowings	497	-
(369)	259	Increase in interest receivable on variable rate investments	(1,587)	924
-	-	Increase in government grant receivable for financing costs	-	-
130	**259**	Impact on Surplus or Deficit on the Provision of Services	**(1,090)**	**924**

The impact of a 1% decrease in interest rates is not equivalent to a 1% increase in rates because, with bank base rate at only 0.5% on 31st March 2012, the rate of interest on a number of investments is below 1% and could not, therefore, effectively fall by a further 1%. In addition, the borrowing figures contain a number of Lender's Option Loans which are only likely to be exercised if interest rates increase.

Price risk

The Council, excluding the pension fund, has no investments in equity shares and so is not subject to any form of price risk currently.

Foreign exchange risk

Part of the repayment of investments held in Iceland domiciled banks has been made in Icelandic Kroner, which due to currency regulations is currently held as new investments in Escrow accounts in Iceland. The sterling value of these investments, which had a total value of £1.43m at 31 March 2012, will fluctuate with exchange rate changes.

Note 51. Investments in Companies

The Council holds the following investments in companies. The accounting treatment in respect of the following investments is explained in the accounting policy applicable to group accounts. Copies of the accounts for these companies can be obtained from the Chief Legal Officer, Hertfordshire County Council, County Hall, Hertford SG13 8DQ (Contact telephone: 01992 555527).

Name	Nature of Business	Owned %	Nominal Value £
Surecare Supplies Ltd	A wholly owned and controlled local authority limited company which provides access to high value for money contracts and a wide range of products and services for care homes	Wholly owned (we have bought the one and only share)	£10,000
Hertfordshire Schools Building Partnership Ltd	A company created for the delivery of the Hertfordshire Building Schools for the Future (BSF) programme.	19.9%	£200
Hertfordshire Schools Building Partnership Phase 1 Ltd	A company created for the delivery of the Hertfordshire Building Schools for the Future (BSF) programme.	Less than 1%	Not applicable
Hertfordshire Schools Building Partnership Phase 1 Holding Ltd	A company created for the delivery of the Hertfordshire Building Schools for the Future (BSF) programme.	Less than 1%	£18
Hatfield Community Free School Company	A company created to support the Hatfield community Free School.	Not applicable	A company limited by guarantee
Exemplas Holdings Ltd	Learning and Development consultancy	1%	£1
Hertfordshire Groundwork Trust Limited	A registered charity which carries out environmental improvement in Hertfordshire	Not applicable	A company limited by guarantee
Smarte East Ltd	A jointly owned and managed not for profit limited liability company established to develop a plan for a regional joint procurement consortium, including constructors and material suppliers for the procurement of capital works	Not applicable	Company is registered as dormant

HCC no longer has an interest in HCS Careers Ltd, Hertfordshire Building Preservation Trust and East of England Regional Control Centre Ltd.

Note 52. Heritage Assets: Five Year Summary of Transactions

	2007/08 £000s	2008/09 £000s	2009/10 £000s	2010/11 Restated £000s	2011/12 £000s
-					
Cost of acquisitions of heritage assets					
Paintings	-	-	-	-	-
Artefacts	-	-	-	-	-
Sculptures	-	-	-	-	-
Total Cost of Purchases	-	-	-	-	-
Donations					
Paintings	-	-	-	-	-
Artefacts	-	-	-	-	-
Sculptures	-	-	-	-	-
Total Donations	-	-	-	-	-
Paintings					
Disposals of Paintings	-	-	-	-	-
Carrying Value	-	-	-	1,880	1,880
Proceeds	-	-	-	-	-
Artefacts					
Disposals of Artefacts	-	-	-	-	-
Carrying Value	-	-	-	87	87
Proceeds	-	-	-	-	-
Sculptures					
Disposals of Sculptures	-	-	-	-	-
Carrying Value	-	-	-	25,521	25,521
Proceeds	-	-	-	-	-
Impairments recognised in the Period					
Paintings	-	-	-	-	-
Artefacts	-	-	-	-	-
Sculptures	-	-	-	-	-

Information is not available on Heritage Assets prior to 1st April 2010

Note 53. Further Information on the Council's Heritage Assets

Art Collection

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

- Portrait of Princess Caroline by Philip Mercier
- Portrait of Frederick Lewis, Prince of Wales by Philip Mercier
- Portrait of Princess Amelia, Daughter of King George II and Queen Caroline by Philip Mercier
- Portrait of Princess Anne, Daughter of King George II and Queen Caroline by Philip Mercier
- Matisse valued by Ceri Richards
- The Blue Plate by Anne Redpath
- Portrait of Queen Caroline by Circle of Jean Baptiste van Loo
- Portrait of King George II, standing full length by Charles Jervas
- Portrait of William Plummer by Sir Thomas Lawrence
- BRANDIS by John Tunnard
- Still Life with Vase and Eggs by Francis Hodgkins

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

Sculpture Collection
The Council has four key sculptures, namely the Henry Moore, the stone figures of Queen Eleanor from Waltham Cross currently on loan to a London museum and two by Dame Barbara Hepworth, Eocene: Mother & Child and Turning Forms.

Dame Barbara Hepworth (1903 -1975) was an English sculptor who helped develop modern sculpture in Britain and was considered a contemporary of Henry Moore.

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

Heritage Assets of Particular Importance
As explained in Note 13, the Henry Moore, Family Group is regarded by the Council as particularly significant and is valued at £20 million. Henry Moore (1898 – 1986) was an English sculptor and artist best known for his semi-abstract monumental bronze sculptures. His forms are usually abstractions of the human figure, typically depicting mother-and-child or reclining figures. Moore's works are usually suggestive of the female body, apart from a phase in the 1950s when he sculpted family groups of which the Council's is an example.

The entire collection, as explained in Note 13, is valued at £27.5 million.

Preservation and Management
The Council has not undertaken any major repairs or restoration of any of its heritage assets in 2011/12. The cost of any such repairs and restoration if incurred would be charged to the Comprehensive Income and Expenditure Statement.

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

The County Archivist manages the archive collections held at HALS. There are various policies in existence for the management of certain types of records e.g. the County Council's own archives are governed by the Council's Records Management Policy (Aug 2009 held on Compass) and the Retention Guidelines (also on Compass); St Albans Diocesan Archives are governed by The Parochial Registers and Records Measure of 1978; and Public Records are governed by the Public Records Acts and various Statutory Instruments. The archive collections are managed in accordance with relevant standards e.g. PD 5454: 2012 and HALS is regularly assessed by The National Archives as a Place of Deposit. HALS has specific procedures for managing collections e.g. appraisal and acquisition; storage; conservation etc. The schools loan collection is managed by the Library service with active engagements with schools. The remaining elements in the collection are managed by Property.

Acquisitions are rare and primarily made by donation. However, on rare occasions when particularly important asset is available for purchase, the Council will undertake the purchase provided that it meets the objectives of the Council in terms of its collection of heritage assets. HALS has a formal Acquisitions Policy and additions to the other collections have only been made as part of a fit out of head office accommodation at Stevenage. The additional pieces were approved at member level and were newly commissioned pieces from a local artist.

Assets are collated, preserved and managed in accordance with the aforementioned guidelines. The register for its collections records the nature, provenance, condition and current location of each asset.
Each individual collection at HALS has an Accession number which is recorded in a manual register. A project has begun to transfer this information to computer using archive software (CALM). This process is scheduled to be completed by March 2013. The other collections' registers have been made available previously and validated as part of the recent revaluation programme.
Disposals of heritage assets are not anticipated but if deemed desirable will require member approval supported by guidance from officers who hold accountability for the collections. In order to dispose of any archive held at HALS permission would have to be sought from the individual owner of the collection. Many collections owned by the Council are inalienable as grant funding was awarded in order to purchase them, making their disposal very unlikely.

Note 54. Trust Funds

The Council acts as Treasurer and Financial Adviser primarily to a number of educational prize funds, endowments, scholarships and bequests that generally have specific trustees to manage them. Capital is invested in accordance with the trustee's instructions in a range of external investments or, if held as cash by the Council, such balances will earn interest at the market seven-day rate. These funds do not represent assets of the Council and have not been included in the balance sheet. As at 31 March 2012 the total value of educational endowments is £502,022 (31 March 2011 - £488,792).

Local Government Pension Fund Accounts

The Council is the Administering Authority for the Hertfordshire Pension Fund ("Pension Fund") which is managed and administered in accordance with the Local Government Pension Scheme (Administration) Regulations 2007 (as amended). These accounts give a stewardship report of the financial transactions of the Pension Fund during 2011/12, and of the deposition of its assets at 31 March.

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

The Pension Fund covers staff employed by the Council, the ten District Councils in Hertfordshire and 201 other bodies (excluding schools). The Pension Fund is available to all local authority employees within Hertfordshire, except teachers and fire personnel for whom separate pension arrangements apply. The Pension Fund provides pensions and other benefits for employees, their spouses, civil partners, nominated co-habiting partners or dependants. The income of the Pension Fund arises from contributions by the employees and by their employers and from dividends and interest on investments. The membership of the Pension Fund at 31 March 2011 was as follows:

Pension Fund Membership	**31 March 2012**
Contributors	26,926
Pensioners	21,663
Deferred Benefits (former contributors)	26,888
Total Members	**75,477**

The table below provides a summary of the Pension Fund accounts for the year 2011/12:

2010/11 **£000s**		**2011/12** **£000s**
2,188,656	Value of the Pension Fund at 1 April	2,421,651
38,557	Net additions / (withdrawals) from dealing with those directly involved in the scheme	22,502
194,438	Net returns on investments	76,425
232,995	Increase / (Decrease) in the Pension Fund during the year	98,927
2,421,651	**Value of the Pension Fund at 31 March**	**2,520,578**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Pension Fund's assets, which at 31 March 2010 were valued at £2,194 million, were sufficient to meet 74.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £757million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Pension Fund's funding policy as set out in its FSS.

The Administering Authority publishes a separate Annual Report and Statement of Accounts for the Pension Fund which provides detailed information and is accessible from the Pension Fund website at www.yourpension.org.uk/agencies/HCC.

Local Government Pension Fund Accounts

Fund Account

2010/11				2011/12	
£000s	£000s		Note	£000s	£000s
32,999		Contributions receivable from members	6.1	31,142	
115,250		Contributions receivable from employers	6.1	109,937	
15,641		Transfers in from other schemes	6.2	12,314	
2		Other income		2	
	163,892	**Additions from dealings with those directly involved in the scheme**			**153,395**
(84,741)		Pensions		(92,504)	
(22,468)		Commutation of pensions and lump sum retirement benefits		(25,421)	
(3,193)		Lump sum death benefits		(2,481)	
	(110,402)	**Benefits payable to members**	6.3		**(120,406)**
(28)		Refunds of contributions		(9)	
(11)		State scheme premiums		(1)	
(12,803)		Transfers out to other schemes	6.4	(8,492)	
	(12,842)	**Payments to and on account of leavers**			**(8,502)**
(1,996)		Administrative expenses	6.5	(1,871)	
(94)		Interest		(49)	
(1)		Bad debts and increase in provision for doubtful debtors		(65)	
	(2,091)	**Total administrative expenses and other payments**			**(1,985)**
	38,557	**Net additions / (withdrawals) from dealings with those directly involved in the scheme**			**22,502**
66,441		Investment Income	6.6	75,488	
(3,636)		Taxes on income		(3,839)	
(9,579)		Investment Management Expenses	6.7	(8,594)	
141,212		Profits and losses on disposals of investments and changes in value of investments	6.8	13,370	
	194,438	**Net Return on Investments**			**76,425**
	232,995	**Net increase / (decrease) in the net assets available for benefits during the year**			**98,927**

Local Government Pension Fund Accounts

Net Assets Statement

31 March 2011			Note	31 March 2011	
£000s	£000s			£000s	£000s
		Fixed interest securities			
127,191		Public sector fixed interest securities		125,794	
204,364		Other fixed interest securities		234,235	
		Equities			
688,188		UK Equities		651,954	
925,490		Overseas Equities		639,134	
		Index linked securities			
88,659		Public sector index linked securities		86,801	
10,806		Other index linked securities		13,148	
		Pooled investment vehicles			
123,386		Property		143,400	
14,177		Unit Trusts		346,558	
124,510		Other managed funds		137,128	
		Derivatives			
82		Futures	6.10a	0	
1,391		Forward foreign exchange contracts	6.10b	1,787	
85,175		Cash deposits		128,210	
32,031		Other investment balances		39,502	
	2,425,450	**Total investment assets**			**2,547,651**
		Derivatives			
(5,446)		Forward foreign exchange contracts	6.10	(57)	
(25,856)		Other investment balances		(47,819)	
	(31,302)	**Total investment liabilities**			**(47,876)**
	2,394,148	**Total investment assets and liabilities**	**6.9a**		**2,499,775**
877		Non-current assets		1,173	
	877	**Total non-current assets and liabilities**			**1,173**
30,884		Current assets	6.11	23,448	
(4,258)		Current liabilities	6.12	(3,818)	
	26,626	**Total current assets and liabilities**			**19,630**
	2,421,651	**Net assets of the scheme available to fund benefits as at 31 March**	**6.9b**		**2,520,578**

The financial statements summarise the transactions and net assets of the Pension Fund. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2012. The treatment of these liabilities is explained in the following Notes to the Accounts (Sections 6.14 and 6.15).

M Parsons, Chief Finance Officer, 13th September 2012

Statement of Accounting Policies

General Principles

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, Chapter 2 of the Statement of Recommended Practice Financial Reports of Pension Schemes 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

The accounts summarise the transactions and net assets of the Pension Fund. The actuarial present value of promised retirement benefits at the Net Asset Statement date is detailed in section 6.14.

Basis of Preparation

The accounts have been prepared on an accruals basis, with the single exception of transfer values which have been treated on a cash basis as the amount payable or receivable by the Pension Fund is not determined until payment is actually made and accepted by the recipient.

Valuation of Assets

Investments, including foreign currencies, are shown in the accounts at market value. Market value is deemed to be the fair value of the investments. Market value is determined as follows:

- Quoted securities are valued at bid price at the close of business on the balance sheet date.
- Unit Trust and managed fund investments (including property) are valued at the closing bid price if both bid and offer prices are quoted by the respective Investment Managers. If only a single price is quoted, investments are valued at the closing single price.
- Unquoted securities are valued having regard to the latest dealings, professional valuations, the advice of directors, asset values and other appropriate financial information.
- Indirect private equity investments are interests in limited partnerships and are stated at the partnership's estimate of fair value. For private equity limited partnerships there is usually a time delay in receiving information from the private equity Investment Managers. The valuations shown in the Net Assets Statement for these investments are the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the balance sheet date.
- Futures contracts are valued at the exchange price for closing out the contract at the balance sheet date. This represents the unrealised profit or loss on the contract.
- Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract.
- Investment assets and liabilities include cash balances held by the Investment Managers and debtor and creditor balances in respect of investment activities as these form part of the net assets available for investment.
- Rights issues are processed on ex date. If the value of the rights on ex date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

Cash and Cash Equivalents

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

Foreign Currency Translation

All investments are shown in sterling. The market value of overseas securities and cash is shown in sterling based on exchange rates applicable at 31 March 2012.

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

Investment Management Expenses

The external Investment Managers' fees are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management.

Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2011/12, £1,335,214 was based on such estimates.

Contributions

Where participating employers have not submitted certified returns of contributions payable by the due date for preparation of these accounts, an estimate of these contributions has been made. In 2011/12, £5,363 contributions were based on such estimates.

Deficit contributions in relation to the liability remaining after the Magistrates Court Bulk Transfer to the Principal Civil Service Pension Scheme are accounted for in the year of agreed payment, with the total liability being spread over a 10 annual payments.

Benefits Payable

Pension and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Investment Income

Investment income in the form of interest on fixed interest stocks and cash deposits and announced dividends on equity securities is accrued as at 31 March 2012.

Accrued interest on investment cash balances, available for sale assets and cash balances not held for investment purposes has been added to the carrying value of the cash deposit to give the fair value of the cash balances at 31 March 2012.

The Pension Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is deducted from dividends paid on UK equities. This is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. The Pension Fund has been granted exemption from US taxation and in some instances partial recovery of other withholding tax is possible. Provision is made for the estimated sums to be recovered and income grossed up accordingly.

VAT

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

Acquisition Costs

Acquisition costs of investments are included in the purchase price.

Additional Voluntary Contribution Investments

The County Council has arrangements with the Standard Life Assurance Company and the Equitable Life Assurance Society to enable employees to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. AVCs are invested separately from the Pension Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. As these contributions do not form part of the Pension Fund's investments, the value of AVC investments are excluded from the Pension Fund's Net Assets Statement in accordance with regulation 4(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093).

Security Lending

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

Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

IFRS 7 Financial Instruments: Disclosures (transfers of financial assets) has been amended and these changes in disclosure requirements will be reflected in the 2012/13 financial statements, in accordance with IFRS 7. The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period.

The Pension Fund transfer financial instruments and will therefore ensure the accounts meet the new disclosures required, as a result of adopting this standard in 2012/13.

Prior Period Adjustments

There were no prior period adjustments in 2011/12.

Events after the Net Asset Statement date

There were no material post net asset statement events relating to the position as at 31 March 2012, at the date of the accounts.

Critical judgements in applying accounting policies and significant estimation techniques

The main areas where the Pension Fund has had to make judgements in applying the above accounting policies to complex transactions or those involving uncertainty about future events or been required to estimate figures based on assumptions about the future or that are otherwise uncertain were:

- **Valuation of private equity investments:** As stated above, the valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the balance sheet date. This may result in a material difference between the valuation included in the Financial Statements and the actual value of the Fund's investments as at 31 March issued by each of the private equity investment managers. At the 31 March 2012 private equity investments totalled £121 million.

- **Contractual commitments:** Commitments to the private equity funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each private equity fund at 31 March 2012 has been converted to base currency, based on exchange rates applicable at the balance sheet date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be materially different from the estimates calculated.

- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting Actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits is included in section 6.14.

- **Provision for doubtful debt:** In 2011/12 a provision for doubtful debt was created, of value £57,644. The provision was created for all invoiced debt at the 31 March 2012 (£160,433). This is based on a policy of providing for doubtful debt as follows:

Age of debt at 31 March 2012	Provision created
0 – 274 days	0%
275 – 456 days	35%
457 – 639 days	50%
Over 639 days	100%

Notes to the Accounts

Note 6.1. Contributions Receivable

2010/11			2011/12	
£000s	£000s		£000s	£000s
		Members	£000s	£000s
32,293		Normal	30,511	
706		Additional	631	
	32,999	**Total Members**		**31,142**
		Employers		
80,069		Normal	79,459	
35,181		Deficit Funding	30,478	
	115,250	**Total Employers**		**109,937**
	148,249	**Total contributions receivable**		**141,079**

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

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

Employers' deficit funding includes:

- £25,349,679 (£23,588,956 in 2010/11) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement on page 57 and accessible from www.yourpension.org.uk/agencies/HCC/.
- £815,258 (£277,109 in 2010/11) paid by employers in excess of the minimum contribution levels required by the Actuary in the Rates and Adjustments Certificate. This includes £739,000 of contributions in relation to the outstanding liability following the bulk transfer out to the Principal Civil Service scheme of Magistrates Court staff.
- £4,313,519 (£11,012,452 in 2010/11) towards early retirements representing the actuarial strain on the Pension Fund where a member retires early and is entitled to immediate access to their benefits. This includes contributions from employers towards the cost of enhancing/augmenting members' benefits. From 1 April 2010, early retirement contributions have been accounted for on an accruals basis in accordance with the Code of Practice on Local Authority Accounting 2011/12. Early retirement contributions not due to be received within 12 months, are shown as a non current asset in the Net Asset Statement
- No payments were made in respect of termination payments (£302,500 in 2010/11) where an employer had ceased to be a participating employer in the Pension Fund.

Contributions received are further analysed by type of employer:

20010/11 £000s		2011/12 £000s
76,862	Administering Authorities	65,854
59,240	Other Scheduled Bodies	61,373
12,147	Admitted Bodies	13,852
148,249	**Total contributions receivable**	**141,079**

Note 6.2. Transfers in from other schemes

The transfers in figure represent the payments received by the Pension Fund in relation to individual members' transfers of benefits into the Pension Fund. No amounts were received during the year for group transfers from other schemes.

Note 6.3. Benefits Payable

2010/11 £000s		2011/12 £000s
48,648	Administering Authorities	54,949
52,124	Other Scheduled Bodies	57,079
9,630	Admitted Bodies	8,378
110,402	**Total benefits payable**	**120,406**

Note 6.4. Transfers out to other schemes

The transfers out figure represent the payments made by the Pension Fund in relation to individual members' transfers of benefits out of the Pension Fund. No amounts were paid during the year for group transfers to other schemes.

Transfers are shown on a cash basis, in line with accounting policy. If accruals had been made for transfers out the total liability at 31 March 2012 would have been £389,183.

Note 6.5. Administrative Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, allow the Administering Authority to charge pension administration expenses direct to the Pension Fund. The expenses listed below include a charge made for the work carried out on the Pension Fund by Hertfordshire County Council's Finance Service on pension administration and investment matters. Expenses incurred by the Pension Fund's Investment Managers are listed in section 6.7.

2010/11 £000s		2011/12 £000s
1,779	Administration and processing	1,677
154	Actuarial Fees	123
	Audit Fees	
44	Statutory	41
19	Legal and other professional fees	30
1,996	**Total administrative expenses**	**1,871**

Note 6.6. Investment Income

a) Analysis of Investment Income

2010/11 £000s		2011/12 £000s
	Income from fixed interest securities	
4,616	Public Sector	3,712
10,461	Other	11,652
	Dividends from equities	
24,229	UK	28,407
16,304	Overseas	19,475
	Income from index linked securities	
3,527	Public Sector	3,312
351	Other	298
	Income from pooled investment vehicles	
5,021	Property	6,636
1,040	Other managed funds	571
375	Interest on cash deposits	794
	Other investment income	
359	Securities lending	326
157	Class action proceeds	109
1	Underwriting commission	0
-	Other	196
66,441	**Total investment income**	**75,488**

b) Securities Lending

The Pension Fund has an arrangement with its Custodian to lend securities from within its portfolio of stocks to third parties in return for collateral. Collateralised lending generated income of £325,892 for 2011/12 (£359,210 for 2010/11). This is included within investment income in the Fund Account.

The Pension Fund obtains collateral at 102% of the market value of securities loaned for collateral denominated in the same currency as that of the loans, or 105% in the case of cross-currency collateral. The market value of securities on loan and collateral held at 31 March 2012 and 2011 is shown in the table below, analysed by collateral type.

2010/11			2011/12	
Market value of securities on loan £000s	Collateral held £000s		Market value of securities on loan £000s	Collateral held £000s
28,936	31,119	Government debt and Supranationals	26,008	27,609
816	832	Euroclear (Triparty)	944	991
3,480	3,655	UK Equity DBV	7,341	7,740
17,383	17,817	UK Gilt DBV	19,434	19,920
50,615	**53,423**	**Total**	**53,727**	**56,260**

Note 6.7. Investment Management Expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of total assets under management. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target, as set out in to the Statement of Investment Principles on page 146.

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

For the period 1 April 2011 to 31 December 2011 the Pension Fund subscribed to the performance measurement service of The WM Company. From 1 January 2012, the Pension Fund's performance measurement service is provided by BNY Mellon. An analysis of the Pension Fund's performance is shown in the Investment Performance section on pages 53-54 of the Annual Report and Statement of Accounts of the Pension Fund.

2010/11 £000s		2011/12 £000s
8,950	Administration and management	7,912
511	Custody	480
88	Investment Consultancy	166
30	Performance measurement services	36
9,579	**Total investment management expenses**	**8,594**

Note 6.8. Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

a) Profits and Losses on the Disposal of Investments and Changes in the Value of Investments

The following tables show the change in market value of investments from 1 April 2010 to 31 March 2012.

Value at 31 March 2010 £000s		Purchases at cost and derivative payments £000s	Sale proceeds and derivative receipts £000s	Profits and losses on disposals of investments and change in value of investments £000s	Value at 31 March 2011 £000s
	Fixed interest securities				
133,554	Public Sector	315,763	(322,527)	401	127,191
195,015	Other	66,377	(56,938)	(90)	204,364
	Equities				
618,747	UK	164,922	(152,697)	57,216	688,188
836,114	Overseas	868,819	(827,236)	47,793	925,490
	Index linked securities				
74,009	Public Sector	51,347	(39,572)	2,875	88,659
8,251	Other	2,886	(1,046)	715	10,806
	Pooled investment vehicles				
74,556	Property	53,877	(11,146)	6,099	123,386
17,750	Unit trusts	21	(5,340)	1,746	14,177
94,447	Other managed funds	17,511	(11,110)	23,662	124,510
	Derivatives				
39	Futures	568	(862)	337	82
(737)	Forward foreign exchange	0	(3,903)	585	(4,055)
106,454	Cash deposits	17,647	(38,799)	(127)	85,175
2,158,199	**Subtotal**	**1,559,738**	**(1,471,176)**	**141,212**	**2,387,973**
6,409	**Net Other Investment Balances**				**6,175**
2,164,608	**Total investments assets / (liabilities)**				**2,394,148**

Value at 31 March 2011 £000s		Purchases at cost and derivative payments £000s	Sale proceeds and derivative receipts £000s	Profits and losses on disposals of investments and change in value of investments £000s	Value at 31 March 2012 £000s
	Fixed interest securities				
127,191	Public Sector	398,851	(408,151)	7,903	125,794
204,364	Other	105,689	(81,150)	5,332	234,235
	Equities				
688,188	UK	163,142	(210,387)	11,011	651,954
925,490	Overseas	686,539	(921,118)	(51,777)	639,134
	Index linked securities				
88,659	Public Sector	42,783	(59,883)	15,242	86,801
10,806	Other	6,695	(5,233)	880	13,148
	Pooled investment vehicles				
123,386	Property	22,394	(6,184)	3,804	143,400
14,177	Unit trusts	324,666	(8,412)	16,127	346,558
124,510	Other managed funds	21,751	(13,848)	4,715	137,128
	Derivatives				
82	Futures	383	(171)	(294)	0
(4,055)	Forward foreign exchange	0	5,776	9	1,730
85,175	Cash deposits	55,345	(12,728)	418	128,210
2,387,973	**Subtotal**	**1,828,238**	**(1,721,489)**	**13,370**	**2,508,092**
6,175	**Net Other investment Balances**				**(8,317)**
2,394,148	**Total investments assets / (liabilities)**				**2,499,775**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments represent the realised gains and losses on futures contracts and forward foreign exchange contracts during the year. The purchases at cost and derivative payments or the sale proceeds and derivative receipts for cash deposits represent the net movement in cash held by the Investment Managers during the year, dependent on whether this is a net positive or negative movement. The change in market value of cash results from gains and losses on foreign currency cash transactions.

b) Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £2.6 million (£3.5 million in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

Note 6.9. Investment Analysis

a) Analysis of Investments Assets at Market Value

2010/11			2011/12	
£000s	£000s		£000s	£000s
		Investment Assets: -		
		Fixed interest securities		
73,172		UK Public Sector	75,710	
54,019		Overseas Public Sector	50,084	
160,822		UK other	194,961	
43,542		Overseas other	39,274	
	331,555	**Total fixed interest securities**		**360,029**
		Equities		
688,140		UK quoted	651,954	
48		UK unquoted	0	
925,490		Overseas quoted	639,134	
0		Overseas unquoted	0	
	1,613,678	**Total equities**		**1,291,088**
		Index linked securities		
88,212		UK Public Sector	86,801	
447		Overseas Public Sector	0	
4,752		UK other	11,459	
6,054		Overseas other	1,689	
	99,465	**Total index linked securities**		**99,949**
		Pooled investment vehicles		
100,428		UK Property	117,055	
22,958		Overseas Property	26,345	
4,532		UK unit trusts	72,986	
9,645		Overseas unit trusts	273,572	
17,910		UK managed funds	18,920	
106,600		Overseas managed funds	118,208	
	262,073	**Total pooled investment vehicles**		**627,086**
		Derivatives		
82		Futures	0	
1,391		Forward foreign exchange	1,787	
	1,473	**Total derivatives**		**1,787**
	85,175	**Cash deposits**		**128,210**
		Other investment Balances		
18,724		Amounts receivable from the sale of investments	26,480	
11,988		Investment income due	11,887	
1,319		UK and overseas recoverable tax due	1,135	
	32,031	**Total other investment balances**		**39,502**

Note: Table continues overleaf

2010/11			2011/12	
£000s	£000s		£000s	£000s
		Investment liabilities: -		
		Derivative contracts		
(5,446)		Forward foreign exchange contracts	(57)	
	(5,446)	**Total derivatives contracts**		**(57)**
		Other investment balances		
(24,151)		Amounts payable for the purchase of investments	(46,290)	
(1,705)		Non recoverable tax payable	(1,529)	
	(25,856)	**Total other investment balances**		**(47,819)**
	2,394,148	**Total investments assets at market value**		**2,499,775**

No single investment held by the Pension Fund exceeded 5% of the total net assets available for benefits. No individual equity holding exceeded 5% of its asset class.

Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

b) Analysis by Investment Manager

The value of investments held by each Investment Manager together with investments in private equity limited partnerships on 31 March were as follows:

31 March 2011			31 March 2012	
£000s	%		£000s	%
353,345	14.8	AllianceBernstein Ltd.	339	0
303,819	12.7	Baillie Gifford & Co.	321,295	12.8
448,619	18.7	BlackRock Investment Management (UK) Ltd.	499,626	20.0
302,757	12.7	Jupiter Asset Management Ltd.	324,516	13.0
131,801	5.5	CB Richard Ellis Investors/Inhouse property unit trust fund	155,089	6.2
65,221	2.7	HarbourVest	68,828	2.7
5,577	0.2	Permira	5,056	0.2
45,436	1.9	Standard Life Investments	46,666	1.9
1,619	0.1	TTP Venture Managers Ltd.	478	0
255,309	10.7	Global Thematic Partners, LLC	241,818	9.7
252,401	10.5	JP Morgan Asset Management (UK) Ltd.	246,706	9.9
228,132	9.5	RCM (UK) Ltd.	237,237	9.5
N/A	N/A	Legal and General	351,786	14.1
112	0	Residual funds from previous portfolios	335	0
2,394,148	**100**	**Subtotal: Funds externally managed**	**2,499,775**	**100**
27,495		**Funds held at Hertfordshire County Council and non-investment balances**	**20,803**	
2,421,643		**Net Assets of the Scheme**	**2,520,578**	

The market values in the table above include the value of investments, cash and net current assets held by each Investment Manager at 31 March 2012. The funds held by Hertfordshire County Council include net current assets and cash required to manage the cashflow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by the outgoing Investment Managers following the restructure of the Pension Fund in previous financial years. Alliance and Bernstein ceased to be an investment manager for the Pension Fund during 2011/12 and the funds in relation to this manager represent residual cash and investment income. Legal and General was appointed as a new Investment Manager for the Pension Fund in 2011/12 following a European Union tender process.

c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund's assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

Note 6.10. Derivatives

a) Futures

Futures contracts are exchange traded. They are standardised contracts, traded on a futures exchange. Futures are held for the purpose of equitising cash; taking a given amount of cash, turning it into an equity position whilst still retaining cash like liquidity.

Futures are disclosed in the accounts at fair value which is the exchange price for closing out of the contract at the balance sheet date. This represents the unrealised profit or loss on the contract. The notional value represents the Pension Fund's economic exposure which is the value of the securities purchased under the futures contract and therefore the value subject to market movements.

2010/11		Contract	Duration	2011/12	
Notional Value £000s	Fair Value £000s			Notional Value £000s	Fair Value £000s
0	0	FTSE 100	1-3 months	0	0
2,637	60	S&P 500 e mini	1-3 months	0	0
3,877	22	DJ EURO STOXX 50	1-3 months	0	0
0	0	TOPIX INDEX FUTURE (TSE)	1-3 months	0	0
6,514	**82**	**Total futures**		**0**	**0**

b) Forward Foreign Exchange Contracts

Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties. The counterparties at 31 March 2011 and 31 March 2012 were UK and overseas investment banks. The contracts in the table below represent various forward contracts involving six foreign currencies (nine at 31 March 2011). Forward foreign exchange contracts are used to hedge against foreign currency movements.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. The notional value of the contract reflects the current value of the currency purchased under the contract.

2010/11			Duration	2011/12		
Notional Value £000s	Fair Value £000s	Liability £000s		Notional Value £000s	Fair Value £000s	Liability £000s
304,012	1,391	(4,668)	Within 1 month	79,918	1,644	(17)
48,970	0	(757)	2-3 months	32,111	140	(40)
1,745	0	(21)	3-6 months	300	3	0
354,727	**1,391**	**(5,446)**	**Total**	**112,329**	**1,787**	**(57)**

Note 6.11. Current Assets

2010/11 £000s		2011/12 £000s
15,080	Contributions due from employers	12,785
4,536	Cash balances	42
9,004	Available for sale assets	8,905
709	VAT due from HMRC	1,574
50	Securities lending/commission recapture	13
1,505	Other debtors and prepayments	187
0	Provision for Doubtful Debt	(58)
30,884	**Total current assets**	**23,448**

Cash balances of £42,315 in the table above includes cash in hand and deposits with financial institutions, repayable without penalty and on notice of not more than 24 hours and investments that are held to meet short term liabilities rather than for investment or other purposes.

Current assets are further analysed by type of debtor organisation:

2010/11			2011/12	
£000s	£000s		£000s	£000s
709		Central government bodies	2,063	
12,666		Other local authorities	8,941	
55		NHS bodies	25	
3,914		Other entities and individuals	3,530	
	17,344	**Total debtors**		**14,559**
0		Provision for doubtful debt	(58)	
4,536		Cash balances	42	
9,004		Available for sale assets	8,905	
	13,540	**Total cash balances**		**8,889**
	30,884	**Total current assets**		**23,448**

Note 6.12. Current Liabilities

2010/11 £000s		2011/12 £000s
878	Tax payable to HMRC	902
2,318	Investment management fees	1,725
170	Other creditors	347
892	Unpaid benefits	844
4,258	**Total current liabilities**	**3,818**

Current liabilities are further analysed by type of creditor organisation:

2010/11 £000s		2011/12 £000s
878	Central government bodies	903
0	Other local authorities	0
3,380	Other entities and individuals	2,915
4,258	**Total current liabilities**	**3,818**

Note 6.13. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

a) Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Further information can be found in the Statement of Investment Principles on pages 146-151.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by Hertfordshire County Council.

b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Managers' annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreement for the Pension Fund's bond manager prescribes the investment restrictions on the securities it can invest in, including the minimum acceptance criteria for investments. From January 2012, the Pension Fund's custodian BNY Mellon provides exception reports to Officers to monitor the compliance of individual fund managers with their respective investment management agreements.

For cash managed by the Administering Authority, credit risk arises from its deposits with banks and financial institutions. The Pension Fund's Treasury Management Strategy for 2011/12 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

At the 31 March 2012, £8,904,842 (99.5%) of the cash held by the Administering Authority was held in AAA rated money market funds. The remaining £42,315 (0.5%) was held in the Pension Fund's bank account which had a credit rating of A at 31 March.

c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a comprehensive cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March, 2012 £8,947,157 (100%) of the cash held by the Administering Authority was held in money market funds and call accounts.

The Pension Fund has set a cap of £20 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assts as assets which can be converted into sterling cash within three months. At the 31 March 2012 the value of illiquid assets was £275,919,866 (11.0% of total fund assets).

d) Market risk

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during year was £13,369,951.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details of these can be found in the Pension Fund's Statement of Investment Principles on pages 146-151.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

e) Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

In consultation with the Pension Fund's actuary, Hymans Robertson, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset class	1 year expected volatility (%)
UK equities *	17.0
Global equities (ex UK) **	19.7
Property	14.5
Corporate bonds (medium term)	10.3
UK fixed gilts (medium term)	7.8
UK index linked gilts (medium term)	5.9
Cash ***	0.8
Total fund volatility	**12.98**

* includes UK unit trusts and managed funds
** includes overseas unit trusts and managed funds
*** includes accrued income

The potential price changes disclosed above are reasonably consistent with a one-standard deviation movement in the value of assets. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

If the market price of the Pension Fund investments increased/decreased in line with the above, the changes in net assets available to pay benefits at market price would be as follows:

Asset Class	Value as at 31 March 2012 £000s	Change %	Value on Increase £000s	Value on Decrease £000s
UK Equities, Unit Trusts and Pooled Funds	743,860	17.0	870,317	617,404
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,030,914	19.7	1,234,004	827,824
Property	143,400	14.5	164,193	122,607
Fixed Interest Corporate Bonds	234,235	10.3	258,361	210,109
Fixed Interest Public Sector Bonds	125,794	7.8	135,606	115,982
Index-Linked Bonds	99,949	5.9	105,846	94,052
Cash and accrued income	121,623	0.8	122,596	120,650
Total Fund	**2,499,775**	**12.98**	**2,824,246**	**2,175,304**

f) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates has been advised by the Pension Fund's actuary, Hymans Robertson, as a sensible level to indicate interest rate sensitivity.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

Asset Class	Value at 31 March 2012 £000s	Increase 100 BPS £000s	Decrease 100 BPS £000s
Cash at Custodian	128,210	1,282	(1,282)
Cash	42	0	0
Available for sale financial assets	8,905	89	(89)
Bonds	459,978	(48,389)	48,389
Total	**597,135**	**(47,018)**	**47,018**

g) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2012, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £1,148,306,965 and £19,201,931 cash denominated in currencies other than sterling.

The Pension Fund's actuary, Hymans Robertson, has advised that the one year expected standard deviation for an individual currency at the 31 March 2012 is 13%. This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Fund is given in the table overleaf.

Asset Class	Value as at 31 March 2012 £000s	Increase 13% £000s	Decrease 13% £000s
Overseas Fixed Interest Bonds	89,358	11,617	(11,617)
Overseas Equity	639,134	83,087	(83,087)
Overseas Index Linked Bonds	1,689	220	(220)
Overseas Property	26,345	3,425	(3,425)
Overseas Unit Trusts	273,572	35,564	(35,564)
Overseas Managed Funds	118,208	15,367	(15,367)
Foreign currencies	19,202	2,496	(2,496)
Total	**1,167,508**	**151,776**	**(151,776)**

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. Further information can be found in section 6.10.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

Note 6.14. Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2012 and 31 March 2011 are set out in the following table. This is the underlying commitment of the Pension Fund in the long term to pay retirement benefits to its active (employee members), deferred and pensioner members.

31 March 2011 £000s		31 March 2012 £000s
3,257	Present value of promised retirement benefits	3,703

Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2010. The liability at 31 March 2012 is estimated to comprise of £1,687 million in respect of employee members, £717 million in respect of deferred members and £1,299 million in respect of pensioners. The principal assumptions used by the Actuary were:

31 March 2011 % per annum		31 March 2012 % per annum
	Financial assumptions	
2.8%	Inflation/pension increase rate	2.5%
5.1%	Salary increase rate	4.8%
5.5%	Discount rate	4.8%
	Mortality assumptions	
	Longevity at 65 for current pensioners:	
21.0	• Men	21.0
23.8	• Women	23.8
	Longevity at 65 for future pensioners:	
22.9	• Men	22.9
25.7	• Women	25.7

Future pensioners are assumed to elect to exchange pension for additional tax free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% of HMRC limits for service from 1 April 2008.

The actuarial present value of promised retirement benefits is sensitive to changes in actuarial assumptions. The significant changes and their impact on the value of the Pension Fund's liabilities between 31 March 2011 and 31 March 2012 was:

Actuarial assumption	£000s	%
Allowance for short term salary growth assumptions at 2012 of 1% for 3 years	(106)	(2.9%)
Lower expectation of price and salary inflation at 2012 compared to 2011	(225)	(6.1%)
Lower expected discount rate at 2012 compared to 2011	493	13.3%
Total increase in liabilities due to changes in assumptions	**162**	**4.4%**

The assumptions used by the Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice. The liability set out in the table is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in the following note.

Note 6.15. Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years.

The last actuarial valuation of the Pension Fund was carried out as at 31 March 2010 to determine contribution rates for the financial years 2011/12 to 2013/14. The market value of the Pension Fund's assets at the valuation date was £2,194 million and represented 74.3% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities.

The contribution rates were calculated using the projected unit actuarial method (or the attained age method for employers closed to new entrants) and the main actuarial assumptions were as follows:

Rate of return on investments	6.1%
Rate of general pay increases	5.3%
Rate of price inflation	3.3%

Further information can be found in the Funding Strategy Statement on page 57 and Actuarial Valuation report on page 16 of the Annual Report and Statement of accounts of the Pension Fund.

Note 6.16. Additional Voluntary Contributions (AVCs)

Scheme members have the option to make AVCs to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either the Standard Life Assurance Company or the Equitable Life Assurance Society.

2010/11							2011/12					
Standard Life		Equitable Life		Total AVC's			Standard Life		Equitable Life		Total AVC's	
£000s	£000s	£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	5,194		**2,394**		**7,588**	**Value at 1 April**		**5,285**		**2,158**		**7,443**
						Income						
382		20		402		Contributions received	294		17		311	
4		0		4		Transfer values received	0		0		0	
	386		**20**		**406**	**Total Income**		**294**		**17**		**311**
						Expenditure						
(591)		(333)		(924)		Retirement benefits	(769)		(252)		(1,021)	
(41)		(7)		(48)		Transfer values paid	(104)		(16)		(120)	
0		0		0		Refunds	0		(9)		(9)	
0		(2)		(2)		Lump sum death benefit	0		0		0	
	(632)		**(342)**		**(974)**	**Total expenditure**		**(873)**		**(277)**		**(1,150)**
	337		**86**		**423**	**Change in market value**		**204**		**49**		**253**
	5,285		**2,158**		**7,443**	**Value at 31 March**		**4,910**		**1,947**		**6,857**

Note 6.17. Related Parties

a) Hertfordshire County Council

The Council incurred costs of £1,608,748 in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. The Council also contributed £65,853,802 to the Pension Fund in 2011/12. All monies owing to and due from the Pension Fund were paid in year.

b) Pensions Committee

Seven members of the Hertfordshire County Council Pensions Committee were Councillor Members of the Hertfordshire Local Government Pension Scheme during 2011/12. Two members of the Pensions Committee were in receipt of pension benefits from the Scheme during the year.

c) Key Management Personnel

Four employees of Hertfordshire County Council hold key positions in the financial management of the Hertfordshire County Council Pension Fund. All four were members of the Hertfordshire Local Government Pension Scheme during 2011/12.

Key management personnel are the Director of Resources and Performance, Assistant Director of Finance, Head of Specialist Account and Head of Accountancy Services. These staff are employed by the administering authority, Hertfordshire County Council, and spend a proportion of their time on the financial management of the Pension Fund. The costs relating to these staff therefore comprise an element of the reimbursement from the Fund to Hertfordshire County Council of £1.6m, as above.

An aggregated figure of the financial relationship (expressed as cash-equivalent transfer values) of the four key management personnel with the Fund was £1,712,021 at 31 March 2012 (£1,487,929 at 31 March 2011).

Note 6.18. Contingent Liabilities and Contractual Commitments

The Pension Fund had no contingent liabilities.

As at 31 March 2012, the Pension Fund had a contractual commitment of a further £46.8 million to private equity limited partnerships based on exchange rates applicable at the balance sheet date (£54.6 million at 31 March 2011).

At 31 March 2012, the Pension Fund had a contractual commitment of a further £17.3 million to CBRE, the Pension Fund's property manager.

Note 6.19 Contingent Assets

The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in the Netherlands, France and Germany.

The Pension Fund's claims are set out below in both Euros and Sterling (calculated using exchange rates as at 31 March 2012). In the Netherlands the claims process has already gone through the Courts and therefore this value has been accrued in the accounts, since this income will be received once supporting claims documentation is submitted. The other two claims are subject to legal processes. Based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

Country	Value in € at 31 March 2012	Value in £ at 31 March 2012
France	148,273	123,583
Germany	190,683	158,932
Total	**338,956**	**282,515**

Note 6.20 Statement of Investment Principles

Regulation 12.1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Pension Fund to publish a Statement of Investment Principles. This is set out on pages 146-151.

Investment Management

Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund.

These regulations permit a range of investments, subject to specific restrictions. Investments may be made:

- in any security on any recognised stock exchange (no single holding to exceed 10% of the value of all investments);
- in unlisted securities (subject to a maximum of 10% of the total value of investments);
- in Unit Trusts and other Managed Funds subject to a maximum of 25% of the total value of investments with any one Investment Manager;
- by deposit with any bank (subject to a maximum of 10% of the value of all investments to any one bank, excepting National Savings Bank) or Local Authority (the total of such deposits not to exceed 10% of the total value of all investments).

The regulations require that the Administering Authority's investment policy must be formulated with a view to:

- the advisability of investing Pension Fund money in a wide variety of investments;
- the suitability of particular investments and types of investments;
- obtaining proper advice at reasonable intervals about their investments.

A local authority may elect to impose its own restrictions in addition to the legal restraints laid down in the regulations. The additional limits which have been determined by the County Council are set out in the Pension Fund's Statement of Investment Principles on pages 146-151.

Responsibility for Investing the Pension Fund

The Pensions Committee of the County Council is responsible for setting the overall investment strategy of the Pension Fund and monitoring investment performance. During 2010/11 the Pensions Committee set up a sub-committee to review the investment strategy.

The majority of the Pension Fund's investments are managed by external Investment Managers, who have substantial discretionary powers regarding their individual portfolios. The split of the Pension Fund between these managers at 31 March 2012 is shown in the following table.

Investment Manager	% of Fund
Legal and General Investment Management Ltd.	14.1%
Baillie Gifford & Co.	12.8%
BlackRock Investment Management (UK) Ltd.	20.0%
CB Richard Ellis Investors	6.2%
Global Thematic Partners, LLC	9.7%
Jupiter Asset Management Ltd	13.0%
JPMorgan Asset Management (UK) Ltd.	9.9%
RCM (UK) Ltd.	9.5%
Private Equity	4.8%

An amount of cash is held by Hertfordshire County Council in order to manage the payment of members' pensions benefits and the collection of contributions. This is invested in accordance with the Treasury Management Strategy for the Pension Fund which is reviewed annually by the Pensions Committee of Hertfordshire County Council. The 2011/12 Treasury Management Strategy was approved by the Pensions Committee on 29 February 2012.

The Statement of Investment Principles details the extent to which the Administering Authority complies with principles of good governance and investment practice, set out in the Myners review of Institutional Investment in the UK.

Statement of Investment Principles 2012

Introduction

The County Council is responsible for the administration of the Pension Fund. The County Council has a statutory duty to ensure that any funds not immediately required to pay pension benefits, are suitably invested.

As required by statute, the County Council has approved a Statement of Investment Principles which is applied to the management of the Pension Fund's investments.

In accordance with government guidelines, the extent to which the Pension Fund complies with the statutory guidance "Investment decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" is set out on page 149.

Who Makes the Investment Decisions?

The Pensions Committee of the County Council, advised by the Chief Finance Officer the Director of Resources and Performance, is responsible for setting the overall investment strategy, monitoring investment performance and then implementing relevant policies. The Pensions Committee consists of eight County Council members, three (non-voting) District Council members elected by the Hertfordshire Local Government Association and a non-voting UNISON representative.

Day to day operational decisions are delegated to the County Council's Chief Finance Officer the Director of Resources and Performance.

The Pension Fund's governance arrangements are set out in full in the Governance Policy and Compliance Statement on the Pension Fund website www.yourpension.org.uk/agencies/HCC/

What are the Investment Objectives of the Pension Fund?

1. To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, specifically to ensure that all:

   - funds are suitably invested;
   - investments are diversified;
   - relevant investment limits are not exceeded;
   - investments and investment arrangements are regularly monitored and reviewed.

2. To ensure that the Pension Fund has sufficient assets to pay Scheme benefits.

3. To achieve a long term rate of return on the invested funds (both capital gains and income) which assists in controlling the level of employers' contributions to the Pension Fund and also the cost of the pensions to the local taxpayers where appropriate by:

   i) as a minimum, matching the Actuary's rate of return assumptions made when assessing the Pension Fund's level of funding; and

   ii) exceeding the Pension Fund benchmark by 1% measured over three year rolling periods.

Link to Funding Strategy Statement

This Statement of Investment Principles is linked to the Funding Strategy Statement, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund while not unnecessarily restraining the investment strategy set out in this document.

The two strategies set out the common objective of the Pension Fund to maximise returns on investments to control the level of employers' contributions.

The Funding Strategy Statement can be found in Appendix 2 on page 57 of the Annual Report and Statement of Accounts of the Pension Fund.

Achieving the Investment Objectives

The County Council, having taken appropriate professional advice, has made the arrangements set out below to reduce the risk that one or more of the investment objectives for the Pension Fund are not achieved over the long term.

1. Suitable Investments

The Pensions Committee considers that the following types of investments, within specific limits, are suitable for the purposes of a pension fund:

- cash, bank deposits and other short term money market investments;
- quoted fixed interest securities, individual securities and pooled investment vehicles;
- quoted equity investments, individual securities and pooled investment vehicles;
- property unit trusts;
- derivative instruments, but not to be used for speculative purposes;
- unquoted equity investments and private equity pooled vehicles.

2. Fund Benchmark and Asset Allocation

The Pension Fund has adopted a specific benchmark which has been approved by the Pensions Committee, following appropriate professional advice from the Investment Consultant, Investment Managers and the performance measurement consultant. The composition of the Pension Fund benchmark is set out at Appendix B to this Statement on page 151.

The weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund.

The asset allocation set out in the benchmark is designed to spread the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

3. Management of Investment

The main choices when selecting a fund management style are:

- Active or passive – making independent decisions when buying or selling investments ("active") or buying stocks to replicate a specific index ("passive").
- Balanced or specialist – investing across a broad range of asset classes ("balanced") or in a narrow, specific asset class ("specialist").

The Pension Fund currently uses "active, specialist" and "passive" Investment Managers only on the advice of the Investment Consultant to increase the potential return of the Pension Fund.

The number of Investment Managers and the share of the Pension Fund by type as at 31 March 2012 are shown in the table below, along with comparative figures for March 2011.

Share of total Pension Fund at 31 March 2011			Share of total Pension Fund at 31 March 2012	
%	Number of Investment Managers		%	Number of Investment Managers
95.1%	8	External, active, specialist	81.1%	7
N/A	N/A	External, passive, specialist	14.1%	1
4.9%	4	Private Equity	4.8%	4

The percentages in the table above are calculated using the value of investments, cash and net current assets held by each Investment Manager at 31 March. The Pension Fund has moved part of their funds from an active investment management agreement with Alliance Bernstein, to a passive investment management agreement with Legal and General.

Full details of the Investment Managers, their mandates and fee basis are shown on the main Pension Fund Statement of Accounts on page 152.

All the Investment Managers need the approval of the Chief Finance Officer the Director of Resources and Performance to acquire shares in any securities that are not listed on a recognised stock exchange.

4. Responsible Ownership including Social, Environmental and Ethical Considerations
The Investment Managers are expected to apply their professional expertise to maintain suitably diversified portfolios for a pension fund. When making investment decisions the Investment Managers are expected to take account of what they reasonably believe are all relevant considerations.

The Pension Fund routinely votes on all matters raised by the largest 350 listed UK companies where it owns shares. The Pension Fund's voting policy is to vote in accordance with the current principles of corporate governance best practice, as advised by the ISS Governance, except when the advice of the Investment Managers indicates such action would not be in the best financial interests of the Pension Fund.

5. Investment Restrictions
The following investment restrictions apply to the funds under management:

i) all limits determined under the Local Government Pension Scheme Investment and Management of Funds) Regulations 2009; and

ii) additional limits which have been determined by the County Council:

Private Equity	-	Total investments are not to exceed a maximum of 7.5% of the value of the Pension Fund. In general the Committee expects private equity to be no more than 5%. The 2.5% headroom allows for fluctuations in the value of other assets.
Options, futures and contracts for differences	-	A maximum of 25% of UK equity portfolio. Only to be used to protect against possible adverse fluctuations in the values of other investments or cash in the portfolio.
Individual equity holdings	-	The total holding in a single company is not to exceed 5% of the issued share capital.

There are no other restrictions placed on Investment Managers' investment decision making. Any breaches of the restrictions above are reported to the next available meeting of the Pensions Committee.

6. Investment Performance Management
The investment performance of Investment Managers is measured by an independent organisation. During 2011/12 performance measurement was carried out by The WM Company to December 31, 2011 and by BNY Mellon Asset Servicing B.V. from January 2012. Quarterly reports are provided to the Chief Finance Officer the Director of Resources and Performance and at least annually to the Pensions Committee.

7. Monitoring of Investment Managers
The Pension Committee meets quarterly to review the performance of the Fund's investment managers. The Investment Sub-Committee was set up by the Pension Committee in 2010 and is responsible for monitoring the performance of Investment Managers and the investments made by the managers. The Investment Sub-Committee meets quarterly at one of the Investment Manager's offices and will meet each manager at least once a year.

8. Actuarial Valuation
The Pension Fund is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the Actuary to ensure that in the long term the Pension Fund's assets will match its liabilities. The framework for this is set out in the Funding Strategy Statement.

9. Stock Lending
The Pension Fund operates a stock lending programme through its custodian bank. The Pension Fund limits the lending to 20% of the total of its portfolios and ensures that the collateral is in cash or bonds and is valued on a daily basis to be on average 105% of the value of the stock which has been lent.

10. Custody Arrangements
The Pension Fund's assets are held in custody by an independent custodian, where reasonable controls have been certified by an appropriate auditor.

This Statement of Investment Principles was presented for approval by the Pensions Committee of Hertfordshire County Council on 14 June 2011 and is published on the Pension Fund website. Copies are available on request for participating Scheme employers, Scheme members, pensioners and deferred beneficiaries. The Statement is reviewed on an annual basis by the Pensions Committee.

<table>
<tr><th colspan="2">Compliance with Myners Principles</th></tr>
<tr><th>Principle</th><th>Current Position</th></tr>
<tr><td>1. Effective Decision Making
Administering authorities should ensure that:
• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;
and
• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</td><td>Day to day operational decisions are delegated to the County Council’s Chief Finance Officer the Director of Resources and Performance, who, with relevant members of his staff, regularly attends seminars and briefing sessions to maintain a high level of skills and knowledge in investment matters.

Members of the Pensions Committee act in the role of trustees for the Pension Fund. They attend training sessions organised by the County Council.

Both members and officers involved with making investment decisions take advice from appropriately qualified professionals where appropriate.

Development Areas
• Use the CIPFA Knowledge and Skills framework to assess members and officers to develop a training plan.
• Develop a medium term business plan for the Pension Fund.</td></tr>
<tr><td>2. Clear Objectives
An overall investment objective(s) should be set out for the fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</td><td>The Pension Fund’s main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund’s liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.

The Statement of Investment Principles is circulated to the Pension Fund’s advisors and investment managers and is published on the Pension Fund’s website.

The following investment objectives for the Fund were agreed in 2011, following a comprehensive investment strategy review:

- Return objective: To achieve 100% funding on an ongoing basis over a 20 year period from 2011 (i.e. by 2031), with a probability of 67%.
- Risk objective: Limiting the likelihood of a fall in funding level to below 65% at the 2013 Actuarial Valuation to a 1 in 10 probability.</td></tr>
<tr><td>3. Risk and Liabilities
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</td><td>The Pension Fund’s main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund’s liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.

Development Areas
• Consider the form and structure of liabilities as well as non-investment risks more explicitly in the next review of strategy.
• Develop a pension fund specific risk management framework.</td></tr>
</table>

<table>
<tr><th>Principle</th><th>Current Position</th></tr>
<tr><td>4. Performance Assessment
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</td><td>The Pensions Committee formally measures performance of investment managers and investments on a quarterly basis.

Performance measurement services are provided by BNY Mellon from 1st January 2012, including daily exception reporting on investment manager compliance with their Investment Manager Agreements.

Development Areas
• Develop a framework to formally measure the performance of the Pension Fund's advisors.
• Develop a framework to enable the Pensions Committee to make an assessment of their effectiveness.</td></tr>
<tr><td>5. Responsible ownership
Administering authorities should:

• adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents

• include a statement of their policy on responsible ownership in the statement of investment principles

• report periodically to scheme members on the discharge of such responsibilities.</td><td>The Pension Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles.

A statement regarding responsible ownership is included in the Statement of Investment Principles, which is part of the Annual Report published on the Pension Fund website for all scheme members to access.</td></tr>
<tr><td>6.Transparency and reporting
Administering authorities should:

• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives

• provide regular communication to scheme members in the form they consider most appropriate.</td><td>The Pension Fund communicates with its stakeholders through the publication of the following documents, in addition to this one, on the Pension Fund's website

• Governance Statement
• Annual report
• Communication Statement

In addition a meeting is held for all employers on an annual basis.

Communication with Scheme members is through the website and through the Pension Fund's employers.</td></tr>
</table>

Composition of Total Benchmark

30%	UK Equities	FTSE All Share Index (including Private Equity)
4.5%	Overseas Equities	FTSE North America Index[a]
4.5%	Overseas Equities	FTSE Developed Europe (ex-UK) Index[a]
2.6%	Overseas Equities	FTSE Japan Index[a]
2.6%	Overseas Equities	FTSE AW Developed Asia Pacific (ex-Japan) Index[a]
0.8%	Overseas Equities	FTSE Israel Index / FTSE Emerging Markets Index[b]
10%	Global Equities	MSCI AC World Index
20%	Global Equities	MSCI World Index (NDR)
3.2%	Fixed Interest Gilts	FTSE A All Stocks Gilts index
6.4%	Corporate Bonds	BofAML EuroSterling Index
3.2%	Index Linked Gilts	FTSE A Over 5 Year Index Linked Gilts Index
3.2%	Overseas Bonds	Barclays Capital Global Aggregate 500 (ex-UK) (GBP Hedges) Index
8%	Property	IPD All Pooled Property Funds Index
1%	Cash	GBP 7 Day LIBID

[a] 70% of overseas equity is GBP hedged.
[b] Benchmark indices for emerging markets equity shown from 31 January 2012; prior to this, benchmark for emerging markets equity was the S&P IFC Composite

Pension Fund Investment Managers as at 31 March 2012

Investment Manager	Value of Portfolio at 31/03/2012	Type of Mandate	Performance Target (% above benchmark)	Fee Type
Jupiter Asset Management Ltd.	324.5m	Active, Specialist, UK Equities	2%	Performance Related
Baillie Gifford & Co.	321.3m	Active, Specialist, UK Equities	1.25%	Fixed Fee
Legal and General Investment Management Ltd.	351.8m	Passive, Specialist, Global Equities	0%	Ad valorem
Global Thematic Partners, LLC	241.8m	Active, Specialist, Global Equities	3% - 5%	Ad valorem
JPMorgan Asset Management (UK) Ltd	246.7m	Active, Specialist, Global Equities	4%	Performance Related
RCM (UK) Ltd	237.2m	Active, Specialist, Global Equities	3% - 4%	Ad valorem
BlackRock Investment Management (UK) Ltd.	499.6m	Active, Specialist, Bonds	0.75%	Performance Related
Permira	5.1m	Active, Specialist, Private Equity	Not applicable	Performance Related
HarbourVest	68.8m	Active, Specialist, Private Equity	Not applicable	Performance Related
Standard Life Investments	46.7m	Active, Specialist, Private Equity	Not applicable	Performance Related
TTP Ventures	0.5m	Active, Specialist Private Equity	Not applicable	Performance Related
CB Richard Ellis Investors	155.1m	Active, Specialist Property	0.5%	Performance Related

Fee types:

Fixed Fee - fee is fixed amount, indexed by RPI annually
Ad valorem - based only on the value of the portfolio
Performance Related - additional fees payable where performance exceeds the target

Firefighter’s Pension Fund Accounts

FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2012

	Note	2011 £000	2012 £000
Contributions receivable			
From employer			
- contributions in relation to pensionable pay	3	(3,443)	(3,402)
- ill health early retirements	3	(64)	(103)
From members			
- Firefighters’ contributions	3	(1,891)	(1,873)
Total - Contributions receivable		(5,398)	(5,378)
Transfers in			
- from other authorities	4	(51)	-
Total - Transfers in		(51)	-
Benefits payable			
- pensions		7,297	7,587
- commutations and lump sum retirement benefits		2,227	1,332
- lump sum death benefits		68	-
Total - Benefits payable		9,592	8,919
Payments to and on account of leavers			
- refunds of contributions		7	3
- transfers out to other authorities	4	-	-
Total - Payments to and on account of leavers		7	3
Deficit for the year before top-up grant receivable from central Government		4,150	3,544
Top-up grant payable by central Government	5	(4,150)	(3,544)
		-	-

NET ASSETS STATEMENT AS AT 31 MARCH 2012

	2011 £000	2012 £000
Current assets		
Top-up grant receivable from central Government	807	0
Amount owing from the General Fund	-	736
	807	736
Current liabilities		
Amount owing to the General Fund	(800)	0
Unpaid pension benefits	-	-
Top-up grant payable to central Government	(7)	(736)
	(807)	(736)
Net Assets	-	-

M Parsons
Director Resources & Performance
Date: 13th September 2012

Notes to the Firefighter’s Pension Fund Accounts

1. Summary of the Firefighters’ Pension Fund Operations

The Firefighters’ Pension Fund was established under the Firefighters’ Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the Council was responsible for paying the pensions of its former fire fighting employees on a ‘pay-as-you-go’ basis. This meant that employees’ contributions were paid into the Council’s accounts from which pensions awards were made and the Council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2006 to 31st March 2011, the Council has continued through its scheme administrator, Serco Solutions Ltd, to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes. Since 1st April 2011 scheme has been administrated through LPFA

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters’ Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. The new financial arrangements are for both the 1992 and 2006 Firefighters’ Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters’ Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

2. Accounting Policies

The accounts have been prepared in accordance with the 2011 Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters’ Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2012.

Transfer values have been treated on a cash basis and all other amounts have been prepared on an accruals basis.

3. Contributions Receivable

Employer and Employee Contributions

Employees’ and employer’s contribution levels are set nationally by central government and are subject to triennial revaluation by the central Government Actuary’s Department.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means the Council must meet the full cost of employing firefighters, including the cost of future pension liabilities, at the time of employing them.

3. Contributions Receivable (continued)

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme and the 2006 Firefighters' Pension Scheme, as shown below.

	Employer	Employee
	%	%
1992 Firefighters' Pension Scheme	21.3	11.0
2006 Firefighters' Pension Scheme	11.0	8.5

Contributions received by the Fund are analysed below.

	Employer		Employee	
	2011	2012	2011	2012
	£000	£000	£000	£000
1992 Firefighters' Pension Scheme	3,052	2,962	1,589	1,534
2006 Firefighters' Pension Scheme	391	440	302	339
	3,443	3,402	1,891	1,873

Ill-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the Council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the Council will be required to make a payment into the pension fund.

4. Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

5. Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters’ Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Department for Communities and Local Government. Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

6. Liabilities after year end

The Fund’s financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2012, which are disclosed separately in note 47 of the main HCC accounts.

Glossary of Terms

The glossary's definitions are intended to provide the reader with a clear and concise explanation of the technical terms used in this report.

Accounting Policies
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accrual Accounting
The inclusion of income and expenditure within the accounts for the financial year in which they are earned or incurred, not when the money is received or paid.

Actuarial Gains and losses
For defined benefit pension schemes, the changes in actuarial deficits or surpluses that arise because:
- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Agency Services
Services that are performed by or for another Authority or Public Body, where the principal, the authority responsible for the service, reimburses the agent, the authority carrying out the work, for the cost of the work carried out.

Amortised Cost Using the Effective Interest Rate Method
The amortised cost using the effective interest rate method applies to both financial assets and liabilities carried at amortised cost. It is a method of determining, from the expected cash flows, the balance sheet carrying amount of such assets and liabilities and the periodic charges or credits to the Income and Expenditure Account of a financial instrument.

Asset
An item that has value owned by the Council. Examples would be land, buildings and stocks.

Audit Commission
An independent body established under the Local Government Finance Act 1982, The Audit Commission is responsible for appointing external auditors to local authorities and setting standards for those auditors, carrying out national studies to promote economy, efficiency and effectiveness in the provision of Council services and defining comparative indicators of Council performance that are published annually.

Balance Sheet
This represents a summary of all the assets and liabilities of the Council, bringing together all the accounts of the Council except the Pension Fund and various Trust Funds whose assets are not at the disposal of the Council.

Billing Authority
The local authority responsible for collecting the Council Tax from residential properties in their area. In Hertfordshire this is the responsibility of the Borough and District Councils.

Budget
A statement of the Council's policy expressed in financial terms. This includes both revenue and capital expenditure.

Capital Adjustment Account
The opening balance on this account represents the combined total of the Fixed Asset Restatement Account and the Capital Financing Account which were replaced at 1 April 2007. From 2007/08 the movements on the Capital Adjustment Account reflects financing of capital expenditure from revenue and capital resources together with the reversal of amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Requirement
The amount of debt outstanding relating to capital expenditure. The minimum Revenue Provision in relation to this debt is calculated with reference to estimated life of the asset for which borrowing is undertaken at the end of the preceding financial year.

Capital Receipts
The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay outstanding debt on fixed assets or finance capital expenditure within rules set down by government. Capital receipts however cannot be used to finance revenue expenditure.

Capital Receipts Reserve
Income from the sale of capital assets. These receipts are available to either finance capital expenditure or repay debt.

Carry-forwards
These are underspends at the year-end which Members and officers, under delegated powers, have agreed to carry forward to the next year to support that year's expenditure plans.

CIPFA
Chartered Institute of Public Finance and Accountancy. The principal accounting body dealing with local government finance.

Code of Practice on Local Authority Accounting
The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

Collection Fund
A fund administered by each billing authority. Council Tax monies are paid into the fund whilst part of the net revenue expenditure of the Council is met from the Collection Fund.

Component Accounting
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

Comprehensive Income & Expenditure Account

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

Consistency
The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Constructive Obligation
An obligation that derives from an authority's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Liability
A potential liability at the balance sheet date, the outcome of which is uncertain, as it is dependent on a future event.

Corporate and Democratic Core
Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those that would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
A property based tax that is administered by District, Borough and Unitary Councils.

Glossary of Terms

Creditors
Amounts owed by the Council at the balance sheet date for goods and services supplied. This will include receipts in advance that have not been applied at the balance sheet date.

Current Asset
An asset that is realisable or disposable within one year.

Current Liability
Amounts that are due to be settled within one year.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liability expected to arise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's services earlier than expected; and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors
Amounts due to the Council at the balance sheet date.

Deferred Credits
Capital income potentially due to be received in future periods.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or un-funded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

Depreciated Replacement Cost
The method employed in valuing land and buildings where a market value basis is not readily available.

Depreciation
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers such as The Local Government (Discretionary Payments) Regulations 2006.

Doubtful Debts
A provision made by the Council based on age and particular circumstances relating to amounts owed to the Council.

Earmarked Reserves
Sums set aside to meet revenue or capital expenditure needs in the future. Reserves offer the scope for greater flexibility in financing future expenditure.

Emoluments
Amounts paid to employees, including expenses or non-monetary benefits that are taxable.

Glossary of Terms

Estimation Techniques
The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence in order to give fair presentation of the accounts.

Exit Packages
All relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

Expected Rate of Return on Pension Fund Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items
Material abnormal items which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur.

Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges
Income raised by charging users of services for the facilities. For example, the supply of school meals and home helps.

Finance Lease
Arrangements whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

Formula Grant
Central Government provides funding to local authorities through a general grant known as Formula Grant, made up of Revenue Support Grant and Re-distributed Business Rates, in support of its general revenue expenditure.

Foundation School
A school that receives funding from the Council but owns its land and buildings.

General Fund Balance
The excess to date of income over expenditure in the Income and Expenditure Account.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future. Income and expenditure accounts and the balance sheet are produced on the basis that there is no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies. When applied, revenue grants are credited to the appropriate service revenue account.

Historical Cost
Capital expenditure originally incurred.

International Financial Reporting Standards
The Code of Practice is the first to be based on International Financial Reporting Standards and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

Impairment
A reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

Infrastructure Assets
Expenditure on works of construction or improvement but which have no tangible value such as construction of, or improvement to highways.

Interest Cost (Pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Non-Pensions Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments, other than those in relation to the Pension Fund, that do not meet this criteria are classified as current assets.

Investments (Pensions Fund)
The investments of the Pension Fund will be accounted for in the statements of that Fund. FRS17 Retirement Benefits requires authorities to disclose their attributed share of pension scheme assets.

LASAAC
Local Authority (Scotland) Accounts Advisory Committee

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are readily convertible to known amounts of cash.

Long Term Borrowing
Loans repayable more than one year after the balance sheet date.

Long Term Contracts
A contract entered into for the provision of a service where the time taken to complete the contract is such that the contract falls into different accounting periods.

Long Term Debtors
Amounts due to the Council more than one year after the balance sheet date.

Minimum Revenue Provision
An amount that the Council considers prudent which must be charged to the statement of movement on the general fund balance to provide for the repayment of debt related to capital expenditure.

Movement in Reserves Statement
This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

National Non-Domestic Rates
A rate in the pound, set by Central Government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes.

Net Book Value
The amount at which fixed assets are included in the balance sheet. This would be either the asset’s historic cost or current value less the cumulative amount provided for depreciation.

Net Current Replacement Cost
The cost of replacing an asset in its existing condition and its existing use.

Net Debt
For cash flow statement presentation purposes, net debt comprises the authority’s borrowings plus bank overdrawn positions less positive bank and cash balances, short and long term investments.

Non Distributed Costs
Costs that cannot be directly attributed to services.

Operating Lease
An arrangement whereby the risks and rewards of ownership of the leased asset remain with the lessor.

Overhanging Discounts and Premiums
Discounts or premiums occurring as a result of debt restructuring that cannot be linked with the replacement loan.

Past Service Cost
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension Fund
An employees' pension fund maintained by an authority, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Post Balance Sheet Events
Events both favourable and unfavourable that occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

Precept
The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council taxpayers on their behalf.

Precepting Authorities
Those authorities which are not billing authorities (i.e. do not collect Council Tax). County Councils, Police Authorities and Joint Authorities are 'major precepting authorities' and Parish, Community and Town Councils are 'local precepting authorities'.

Prior Period Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Private Finance Initiative
The private finance initiative provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. In return the private sector receives payment linked to performance in meeting agreed standards of provision.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate realisation of which can be assessed with reasonable certainty.

Public Works Loan Board
A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

Rateable Value
Rateable value of a property is based on an assessment of the annual rental value for non-domestic property. Rateable value multiplied by the rate in the £ levied equals the rate payments for the year.

Related Parties
For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Resources and Performance
A directorate of the Council which contains the services organised on a corporate basis that support the delivery of services to the public

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revaluation Reserve
Gains and losses on an individual asset basis arising from revaluations are reflected within the Revaluation Reserve.

Revenue Contingency
A sum set-aside for future pay and price increases.

Revenue Contributions to Capital Outlay
Contributions from revenue to finance capital expenditure.

Revenue Expenditure and Income
This is expenditure on day-to-day running costs and consists primarily of salaries and wages, premises related costs and supplies and services. Revenue income will include fees and charges and service specific grants.

Revenue Expenditure Funded from Capital under Statute
Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the authority.

Revenue Support Grant
A grant paid by central government in aid of local authority services in general, as opposed to specific grants, which may only be used for a specified purpose.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Service Reporting Code of Practise
The Code that establishes 'proper practices' with regard to consistent financial reporting for services.

Short Term Borrowing
Loans repayable within one year of the balance sheet date.

Short Term Investments
Deposits with approved financial institutions which, when placed, had a maturity date of less than one year.

Soft Loans
Loans that local authorities may make for policy reasons that are interest free or at rates below prevailing market rates.

Specific Grants
Government grants to local authorities in aid of particular projects or services.

Statement of Standard Accounting Practice
A statement of accounting practice issued by the Accounting Standards Board.

Stocks
The amount of unused or unconsumed stocks held in expectation of future use. When use will not occur until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Total Cost
The total cost of providing a service reflects all costs, including an appropriate share of all support services and overheads.

Transfer Value
The value of an employee's pension rights when transferring from one pension scheme to another.

Useful Life
The period over which the Council will derive benefits from the use of a fixed asset.

Vested Rights
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses, civil partners or other dependants.

Voluntary Provision
Any additional provision over and above the minimum revenue provision required.