

# Hertfordshire County Council

## Statement of Accounts 2018/19





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# **Narrative Report**

# Narrative Report

## Introduction

Hertfordshire County Council's Statement of Accounts for 2018/19 gives a detailed analysis of the council's finances for that year. These are prepared in accordance with relevant accounting and reporting standards and other statutory requirements.

This Narrative Report provides an introduction to the accounts. It includes:

- some key facts about Hertfordshire;
- a brief description of the leadership, management and staffing of the County Council;
- our priorities;
- an overview of the services provided by the council, and an overview of our performance against key objectives in 2018/19 financial year; and
- a description of the financial position at the end of the year as set out in the accounts.

The description of the financial position includes:

- analysis of revenue spending, including a description of the budget for the year and the performance against it, and an explanation of where taxpayers' money has been spent to provide services;
- the medium term financial outlook and the future challenges we face;
- an analysis of capital investment made during the year; and
- a summary of our key financial liabilities and reserves.

## Key Facts about Hertfordshire

Hertfordshire is currently home to a population of just under 1.2 million residents. Hertfordshire's population is growing – it is projected to increase from 1.177 million to 1.333 million by 2029. This requires corresponding growth in infrastructure – schools and community facilities as well as capacity on our transport network.

The number of children and young people under the age of 19 is forecast to grow by 17% between 2014 and 2029; and the number of over 65's by 38%. Demographic changes in within Hertfordshire, coupled with longer life expectancy, is anticipated to result in greater complex care needs; demand for disability services is rising with longer life expectancy, improved diagnosis and the responsibilities and expectations arising from the 2014 Care Act.

Improving our understanding of our communities and their needs is a central element of how we develop our priorities. We use techniques including regular communication, public engagement, formal consultation and where appropriate and possible, co-production of strategies and operational plans with residents and service users. In addition to service-specific engagement activity, a biennial telephone survey with around 1,000 residents and the use of a Citizens' Panel help inform priority setting. The last Residents' Survey was conducted between September and November 2018. Some of the headline responses are set out below:

- 69% of Hertfordshire residents stated that they were satisfied with the way Hertfordshire County Council operates (compared to 60% nationally);
- 85% of Hertfordshire residents stated they were satisfied with their area as a place to live (compared to 78% nationally); and
- 81% of Hertfordshire residents stated that they felt they strongly belonged to their local area (compared to 62% nationally).

# Narrative Report

## The leadership, management and staffing of the County Council

The decisions that affect the services we provide to our residents are made by elected Councillors. There are 78 Councillors at Hertfordshire County Council. The last local election was in 2017 and the next will be in 2021. The Full Council is a meeting of all 78 Council members and it is at these meetings that councillors decide the overall policies of the council and set the annual revenue budget and the capital investment programme.

The Full Council is also responsible for electing a Leader of the Council. The current leader is Cllr David Williams is responsible for the strategic direction and priorities of the council. This includes the overall revenue and capital strategy, which is supported by 8 other councillors and together they form a Cabinet. One of the members of the Cabinet is also the Deputy Leader. This is currently Cllr Teresa Heritage.

Decisions are taken by the Cabinet (representing each of the council's service portfolios) following consideration by Cabinet Panels.

Oversight is provided by the Overview and Scrutiny Committee and the Audit Committee. Council staff are then responsible for implementing these decisions within agreed delegations.

The Council's Constitution, including its Financial Regulations, are reviewed regularly to ensure they remain effective. Financial Regulations were reviewed and refreshed in November 2017. The Council Constitution was updated and agreed in May 2019. There were no significant changes to governance arrangements during 2018/19.

Senior Officers are led by the Chief Executive, Owen Mapley, and the Directors of the different council services. Together, the Chief Executive and the service Directors for the Strategic Management Board are responsible for:

- Advising Councillors on policy;
- Implementing Councillors' decisions; and
- Service performance.

During the year the previous Chief Executive, John Wood, retired. There was a well-planned transfer of the role from John Wood to Owen Mapley with a handover period to ensure continued stability within the council.

The table below shows the whole time equivalent for staffing in each Director's area.

Staff Number (Whole Time Equivalent)	31 March 2018	31 March 2019
Adult Care Services	1,796	1,906
Children's Services	1,893	1,884
Resources	1,428	1,446
Fire & Rescue and Other Community Protection	675	670
Environment	315	319
Public Health	50	53
<b>Total</b>	<b>6,157</b>	<b>6,278</b>

# Narrative Report

## County of Opportunity: Our priorities

Hertfordshire County Council's Corporate Plan: County of Opportunity 2017-2021 was adopted following the May 2017 local elections. A summary of the anticipated challenges we will face in the future are set out in the Council's Corporate Plan (<https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/corporate-plan-2017-21.aspx>).

The Corporate Plan sets out our vision for Hertfordshire "to continue to be a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities" and outlines the council's overall vision, aspirations and overarching priorities for Hertfordshire and the County Council under four core themes or 'Opportunities'.

The Corporate Plan provides an overall framework for the council's other key strategies and departmental plans which set out more detail of how key priorities are to be addressed. This is currently being refreshed, following the recent appointment of the new Chief Executive and the previous election of Councillor David Williams as Leader of the Council.

## Services provided by the council

The council provides a wide range of services, including:

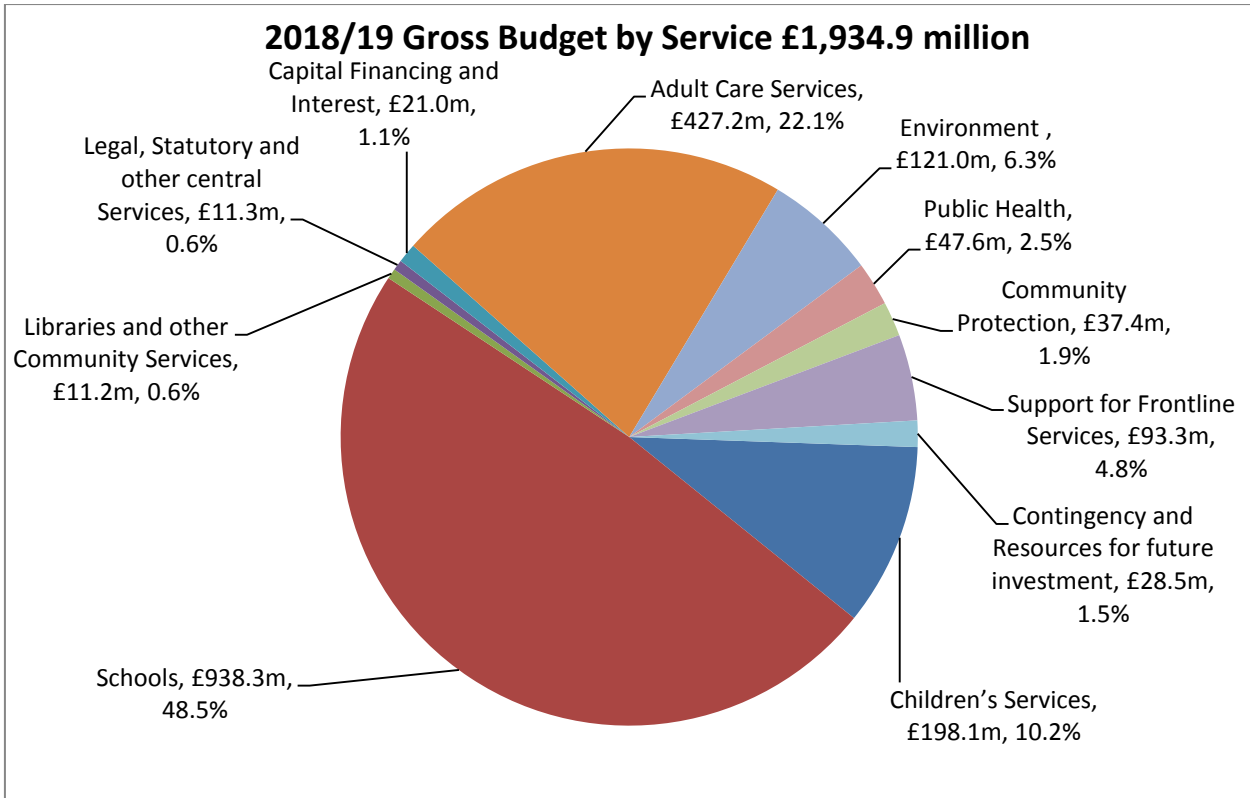
- caring for and supporting children, young people and families; also, caring for the elderly and vulnerable and people with disabilities, mental health, drugs or alcohol problems;
- the Hertfordshire Fire and Rescue Service;
- road maintenance and safety;
- co-ordinating bus services and providing home to school transport for children;
- recycling and waste disposal;
- responding to major planning applications – for example, housing and mineral extraction;
- economic development;
- providing libraries, archives and local studies material;
- protecting consumers against poor quality goods and services and upholding fair trading laws; and
- community safety (crime / anti-social behaviour reduction initiatives) and emergency planning.

The performance of the council in key areas is set out in the Annual Report, prepared each year alongside the accounts. The final version of the accounts will be published by the 31 July 2019 deadline, once the review of the independent local auditor has been completed, and this part of the narrative report will be updated at that point.

## Revenue Spending Plans

The budget for 2018/19 was set in the context of ongoing financial challenge for the council, in common with the whole of the local government sector. This arises from the combination of ongoing national reductions in public sector spending, compounded by inflationary pressures and growing demand for our services. The budget plan at the start of 2018/19 is set out overleaf, which shows how the budget was allocated between different areas of spending. The largest areas of spending can be identified as Schools funding and Adult Care Services.

# Narrative Report



The budget for the year included planned savings of £29.7m, which is set out in more detail below. Delivery of savings was monitored through the year and, at the end of the financial year, £25m had been delivered as planned; the balance of savings that were not delivered were offset by alternative savings identified during the year.

Service Area	Policy Choice £m	Efficiency Savings £m	2018/19 Total Savings £m
Children's Services	1.0	3.0	4.0
Community Protection	-	0.2	0.2
Environment	0.5	2.3	2.8
Adult Care Services	2.0	13.8	15.7
Public Health	-	1.5	1.5
Resources	0.1	2.7	2.7
Central Items	-	2.8	2.8
	<b>3.6</b>	<b>26.2</b>	<b>29.7</b>

## Outturn revenue performance

A number of key pressures on our budgets arose during the course of the year, specifically within social care services for adults and children. With no other changes, this could have led to a £8m overspend. However, as a result of proactive budget management taken during the year across all services and also due to unexpected external factors, the final outturn was an underspend of £0.7m.



## Narrative Report

Summary Revenue Budget Monitor as at 31 March 2019			
SERVICE	Latest Approved Budget £'000	Outturn at Year End (Incl C/Fs) £'000	Variance after C/F at 31 March 2019 £'000
Adult Care Services	324,584	327,583	2,999
Public Health	48,727	48,727	-
Children's Services	173,812	178,051	4,239
Environment & Infrastructure	109,064	109,136	72
Resources	71,052	69,387	(1,665)
Community Protection	36,125	36,292	167
<b>Service Subtotal</b>	<b>763,364</b>	<b>769,176</b>	<b>5,812</b>
Central Items	26,533	20,040	(6,493)
<b>NET REVENUE BUDGET</b>	<b>789,897</b>	<b>789,216</b>	<b>(681)</b>
Transfers to/(from) Reserves	3,938	3,938	-
Contribution to Capital	5,181	5,181	-
<b>COUNTY FUND TOTAL</b>	<b>799,016</b>	<b>798,335</b>	<b>(681)</b>
<b>CS Schools funded by direct government grant</b>	613,509	601,833	(11,676)
<b>Schools Grant &amp; Other Funding</b>	(613,509)	(605,064)	8,445
<b>Schools Overspend/ (Underspend)</b>	-	<b>(3,231)</b>	<b>(3,231)</b>

The key mitigations to overspending against social care budgets were wider action to secure additional underspending in other services, or to maintain spending close to plans, and to unexpected grants from Government (worth £4.7m), unanticipated benefits arising from utilities costs and property rates rebates (£2m), and also benefits arising from delays in delivery of some capital schemes which reduced financing costs (£2m). In addition, there was an underspend against planned spending on schools (largely due to the timing of some schools becoming academies).

Savings were largely delivered as planned – where savings were identified as being unlikely to be delivered, alternative savings were identified. This enabled the overall budget to be held in balance.

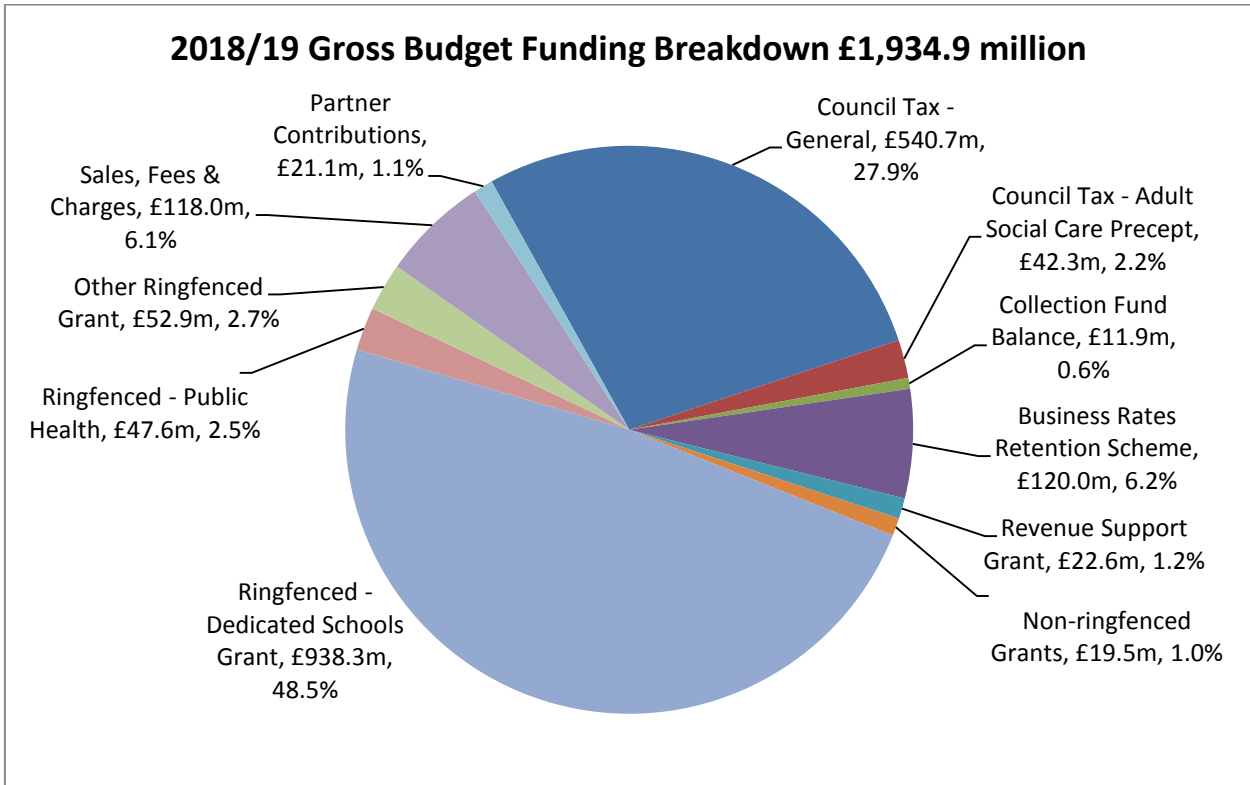
At the end of the year, a number of budget areas requested amounts to be carried forward to the new financial year. Principally, these were ring-fenced grant amounts, where the purpose of the spending is limited in the terms of the grant. Had those amounts not been carried forward (including funding such as schools funding, the Better Care Fund, and the Public Health grant), there is a risk that we would have had to repay those amounts to Government. These amounts have been transferred to the specific reserve held for these purposes.

Also at the end of the year, the planned contingency budget (to be used in the event of overspending that could not be addressed elsewhere) had not been required. This has been largely transferred to the Transition Reserve in line with decision made by Cabinet, with a smaller amount being added to the Invest to Transform reserve.

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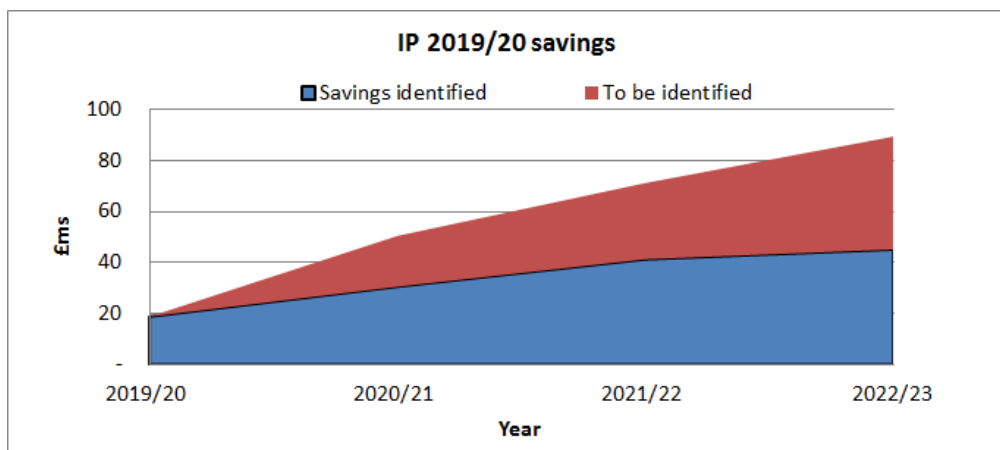
## Revenue Funding

The chart below shows how spending was planned to be funded. It can be seen that the largest contributors to our funding are the ring-fenced grant for schools (the Dedicated Schools Grant) and the income arising from Council Tax receipts.



## Outlook – 2019/20 and later years

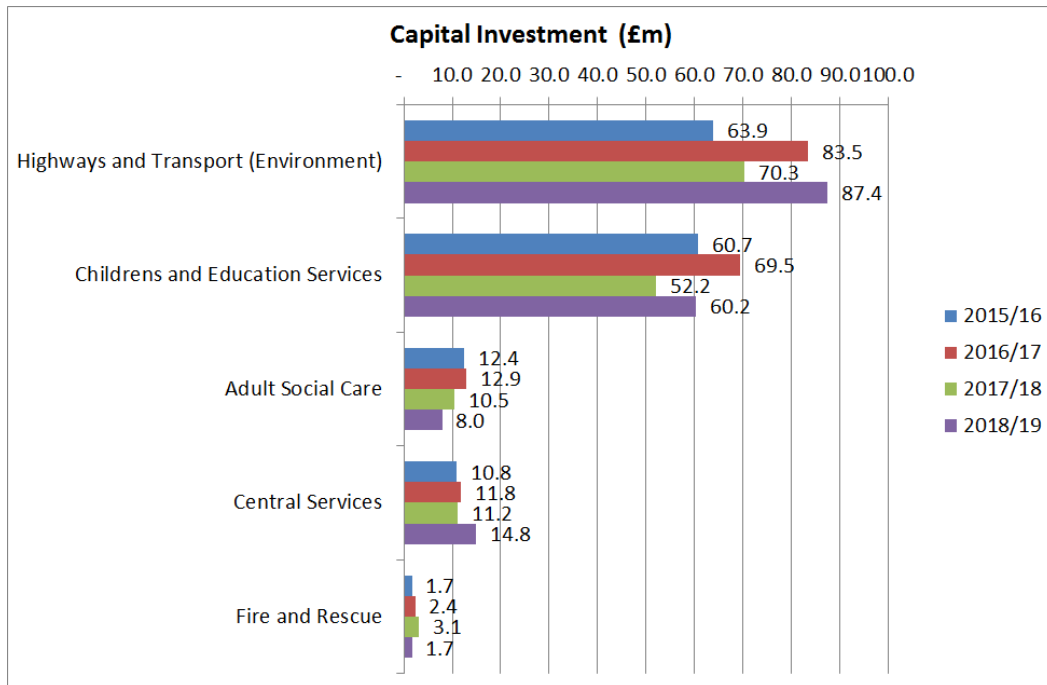
The budget for 2019/20 was agreed by Full Council in February 2019. The medium term financial outlook for the council is set out in the Integrate Plan document. This shows the planned spending for each cabinet portfolio area for the new financial year and includes indicative figures for the next 3 years. This financial outlook shows that there is expected to be further pressure on budgets across the next 4 years, as shown in the following chart. The savings requirement is expected to increase to £90m by 2022/23, of which plans have been laid for £45m. Further savings of £45m have yet to be identified – given the extent of this requirement, work has begun much earlier than usual on the new round of budget planning



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## Capital investment programme

The capital programme for the year 2018/19 saw investment of £172.2m in the infrastructure of the County, with specific emphasis on highways and schools expansion. This is shown in the chart below, which provides comparator figures for previous years. Since April 2015, it can be seen that there has been £650m invested in Hertfordshire through the council's capital investment programme.



Significant investment schemes progressed during the year include:

- £60m of investment in the Hertfordshire Highways network, including highways and lighting
- £22m has invested in additional Secondary School places
- £6m has invested in additional Primary School places
- £19m invested in general improvements and maintenance of Hertfordshire schools
- £6.4m was invested in Superfast Broadband.

## Capital Funding

Capital investment in the year has been funded from a variety of sources, shown below. This shows that most investment was funded either through capital grants received for specific purposes, or through borrowing.

Capital investment	Outturn	
	£'000	
Capital Grants	82,597	48%
Borrowing	58,195	34%
Contributions from Third Parties	18,187	11%
Revenue contributions	8,875	5%
Specific Reserves	3,476	2%
Capital Receipts	866	1%
<b>Total</b>	<b>172,196</b>	

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## Our key financial assets and liabilities and reserves

The council has significant assets, such as land and buildings, through which it delivers services. The value for many of these will need to be estimated as there is no active market for them. For example, there are a large number of schools of all sizes and their value is estimated for the purposes of the accounts, based on the size of the school and an estimate of the rebuilding costs. The council engages independent accredited valuers to ensure these valuations are robust.

A significant liability for the council is the pension liability. This is an estimate of the current value of all future pensions payments for those currently part of the LGPS fund administered by the council. It considers the future liability for all payments, adjusted to current values and the future value of all assets held by the scheme (which are invested to help ensure the liability is funded). The net liability is a key figure in the accounts. The estimation of the current value of future assets and liabilities is a complex process, and the council requests this information from the pension fund independent actuary each year as part of the preparation of the accounts.

Reserves are held by the council and reflect specific future risks or liabilities. The reserves held by the council include a number of reserves held on behalf of third parties, for example, balances held by schools which are controlled by the school governors, and amounts held on behalf of the Local Enterprise Partnership (Herts LEP). Other reserves are held for accumulated balances relating to grants that are ringfenced – were these to be used for other purposes, the council would expect to become liable to repay funds used for expenditure that is not allowable under the conditions of the ringfenced grant. A limited number of reserves are more flexible and are can be used for more general purposes.

## Guide to the Statement of Accounts

The Statement of Accounts sets out the council's income and expenditure for the year and its financial position at 31 March 2019. The format and content of the financial statements is prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards. Accounting policies are applied in accordance with these standards; there have been no material changes since last year.

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

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

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

The **Balance Sheet** is a "snapshot" of the council's financial position at year end. The top half of the balance sheet sets out the council's assets and liabilities, including provision for known liabilities from past events that can be reliably estimated. The lower half of the balance sheet shows the council's

## Narrative Report

reserves: Usable reserves reflect actual cash amounts (of which a significant proportion is held by the council on behalf of other bodies, such as schools); and unusable reserves result from accounting adjustments required by statute or accounting standards and cannot be spent.

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

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

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

The Statement of Accounts also includes:

- Statements setting out the respective responsibilities of the council and its Chief Financial Officer, and of the Audit Committee;
- the Local Government Pension Fund Accounts for Hertfordshire and the Firefighters' Pension Fund accounts; and
- the Annual Governance Statement, which sets out the governance structures of the council and its key internal controls.

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

### Investments in Other Companies

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

### The Annual Governance Statement

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

- Ongoing financial risks in relation to demand for services, particularly in the area of adult social care; significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement; proposed changes to business rates retention; and the impact of the Fair Funding review on the distribution of resources. Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £45m by 2022/23. They will also monitor the delivery of current savings proposals, to support decision making for future years' Integrated Plans. In addition, Finance continues to monitor specific developments and make representations on behalf of the council.
- Recruitment of staff in key operational areas, in particular, Legal Services, Property, Environment (in particular engineers and planning staff), Children's Services and Adult Social Care continue to

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be a priority. For the latter, workforce and associated cost pressures including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc. The council continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages. Work has already begun around a recruitment campaign for social workers, occupational therapists and proposals around market forces payments.

- The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme. During 2017/18, the Mayor of London reversed Transport for London's (TfL) previous position accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70m, TfL would not agree to cover any ongoing cost risk and as a result there is an impasse. Should this lead to the scheme not progressing, funding partners may seek all funding to be returned. Furthermore, investigations into alternative uses of the corridor are being explored. The accounts have been prepared in line with the guidance reflecting the latest information on the scheme.
- The potential creation of new delivery models, for example for Library Services to be transferred to a Mutual: for these, a full business plan and transition plan, including governance model, financial modelling; and risk and control implications will be developed.

The overall review of effectiveness set out in the Annual Governance Statement rates financial systems as having "Satisfactory Assurance".

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

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

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

# **Statement of Responsibilities**

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

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

## The County Council's responsibilities

The council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Resources;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the Statement of Accounts before 31 July 2019.

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

Signed on behalf of Hertfordshire County Council

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



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

## The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

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

## Chief Finance Officer's Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the council, the Hertfordshire County Council Pension Fund and the Firefighters' Pension Fund as at 31 March 2019 and the income and expenditure for the year then ended.

**Scott Crudgington, CPFA, MBA**  
**Director of Resources**

# **Expenditure and Funding Analysis**

# Expenditure and Funding Analysis

## Introduction

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

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

## Expenditure and Funding Analysis

	2018/19		
	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s
Adult Care Services	320,045	9,010	329,055
Central Items	1,257	(12,531)	(11,274)
Children's Services	172,781	(57,799)	114,983
Community Protection	36,220	9,466	45,687
Environment and Infrastructure	111,912	39,175	151,086
Public Health	213	227	440
Resources	78,967	10,922	89,888
<b>Net Cost of Services</b>	<b>721,395</b>	<b>(1,531)</b>	<b>719,865</b>
Other Income and Expenditure	(746,035)	(17,545)	(763,580)
<b>Surplus or Deficit</b>	<b>(24,640)</b>	<b>(19,076)</b>	<b>(43,715)</b>
<b>Opening General Fund</b>	(31,497)		
<b>Add (surplus)/deficit on General Fund</b>	(24,640)		
<b>Transfers to/(from) Earmarked Reserves</b>	24,804		
<b>Closing General Fund at 31st March</b>	<b>(31,333)</b>		

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

# **Presentation of Financial Statements**

# Presentation of Financial Statements

## 1. Comprehensive Income & Expenditure Statement

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

2017/18			2018/19			
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
415,066	(89,670)	325,396	Adult Care Services	431,431	(102,376)	329,055
2,298	64	2,362	Central Items	(11,264)	(10)	(11,274)
918,003	(729,875)	188,128	Children's Services	845,812	(730,830)	114,983
48,938	(3,146)	45,791	Community Protection	48,103	(2,416)	45,687
155,010	(22,944)	132,066	Environment and Infrastructure	170,586	(19,500)	151,086
48,500	(48,964)	(464)	Public Health	48,238	(47,798)	440
105,111	(19,272)	85,839	Resources	105,397	(15,509)	89,888
<b>1,692,925</b>	<b>(913,807)</b>	<b>779,118</b>	<b>Cost of Services - Total Continuing Operations</b>	<b>1,638,303</b>	<b>(918,439)</b>	<b>719,865</b>
		195,197	Other Operating expenditure			69,623
		40,798	Financing and Investment Income & Expenditure			51,259
		(859,101)	Taxation and Non-Specific Grant Income			(884,461)
		<b>156,011</b>	<b>(Surplus) or Deficit on Provision of Services (A)</b>			<b>(43,715)</b>
		(65,618)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment			(333,632)
		(103,752)	Remeasurements on the Net Defined Pensions Liability			131,033
		(3,784)	(Surplus) or Deficit on revaluation of available for sale financial assets*			1,993
		<b>(173,154)</b>	<b>Other Comprehensive Income &amp; Expenditure (B)</b>			<b>(200,606)</b>
		<b>(17,143)</b>	<b>Total Comprehensive Income &amp; Expenditure (A+B)</b>			<b>(244,321)</b>

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

# Presentation of Financial Statements

## 2. Balance Sheet

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

31 March 2018				31 March 2019	
£000s	£000s	Note	£000s	£000s	
2,914,842		Property, Plant & Equipment	12	3,354,935	
32,555		Heritage Assets	13	32,006	
3,721		Intangible Assets	14	3,446	
34,974		Long Term Investments	43	33,122	
25,831		Long Term Debtors	18	23,554	
	<b>3,011,923</b>	<b>Long Term Assets</b>			<b>3,447,062</b>
40,809		Short Term Investments	43	77,935	
11,606		Assets Held for Sale	20	12,952	
4,187		Inventories		5,151	
123,733		Short Term Debtors	18	135,033	
123,964		Cash and Cash Equivalents	19	115,729	
	<b>304,299</b>	<b>Current Assets</b>			<b>346,800</b>
(2,848)		Short Term Borrowing	43	(5,535)	
(1,707)		Short Term Liabilities	43	(1,868)	
(156,354)		Short Term Creditors	21	(190,621)	
(13,787)		Provisions for Accumulated Absences	24	(7,178)	
(15,177)		Short Term Provisions	22	(13,366)	
	<b>(189,872)</b>	<b>Current Liabilities</b>			<b>(218,567)</b>
(1,244)		Long Term Creditors	21	(1,241)	
(3,566)		Long Term Provisions	22	(3,044)	
(260,760)		Long Term Borrowing	43	(278,074)	
(1,030,918)		Liability relating to the defined benefit pension scheme	37	(1,213,991)	
(52,806)		Other Long Term Liabilities	43	(50,934)	
(47,064)		Capital Grants Receipts in Advance	38	(53,698)	
	<b>(1,396,359)</b>	<b>Long Term Liabilities</b>			<b>(1,600,983)</b>
	<b>1,729,991</b>	<b>Net Assets</b>			<b>1,974,312</b>
(343,299)		<b>Usable Reserves</b>	23	(396,430)	
(1,386,692)		<b>Unusable Reserves</b>	24	(1,577,882)	
	<b>(1,729,991)</b>	<b>Total Reserves</b>			<b>(1,974,312)</b>

These financial statements are the draft financial statements certified by the Chief Finance Officer on **31 May 2019**.

**Scott Crudgington**  
Director of Resources

# Presentation of Financial Statements

## 3. Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balances before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Note	General Fund Balance	Earmarked General Fund Reserves	Total General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2017 carried forward</b>		<b>(31,809)</b>	<b>(149,785)</b>	<b>(181,593)</b>	<b>(500)</b>	<b>(72,174)</b>	<b>(254,269)</b>	<b>(1,458,580)</b>	<b>(1,712,849)</b>
<b>Movement in reserves during 2017/18</b>									
Total Comprehensive Income and Expenditure		156,011	-	<b>156,011</b>	-	-	<b>156,011</b>	(173,154)	<b>(17,143)</b>
Adjustments between accounting basis & funding basis under regulations	7	(194,018)	-	<b>(194,018)</b>	(11,755)	(39,269)	<b>(245,042)</b>	245,042	-
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		<b>(38,007)</b>	-	<b>(38,007)</b>	<b>(11,755)</b>	<b>(39,269)</b>	<b>(89,031)</b>	<b>71,888</b>	<b>(17,142)</b>
Transfer to / from Earmarked Reserves	8	38,319	(38,319)	-	-	-	-	-	-
<b>(Increase) / Decrease in 2017/18</b>		<b>312</b>	<b>(38,319)</b>	<b>(38,007)</b>	<b>(11,755)</b>	<b>(39,269)</b>	<b>(89,031)</b>	<b>71,888</b>	<b>(17,142)</b>
<b>Balance at 31 March 2018 carried forward</b>		<b>(31,497)</b>	<b>(188,104)</b>	<b>(219,600)</b>	<b>(12,255)</b>	<b>(111,443)</b>	<b>(343,299)</b>	<b>(1,386,692)</b>	<b>(1,729,991)</b>
<b>Movement in reserves during 2018/19</b>									
Total Comprehensive Income and Expenditure		(43,715)	-	<b>(43,715)</b>	-	-	<b>(43,715)</b>	(200,606)	<b>(244,321)</b>
Adjustments between accounting basis & funding basis under regulations	7	19,075	-	<b>19,075</b>	-	(28,491)	<b>(9,416)</b>	9,415	-
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		<b>(24,640)</b>	-	<b>(24,640)</b>	-	<b>(28,491)</b>	<b>(53,131)</b>	<b>(191,191)</b>	<b>(244,322)</b>
Transfer to / from Earmarked Reserves	8	24,804	(24,804)	-	-	-	-	-	-
<b>Increase / (Decrease) in 2018/19</b>		<b>164</b>	<b>(24,804)</b>	<b>(24,640)</b>	-	<b>(28,491)</b>	<b>(53,131)</b>	<b>(191,191)</b>	<b>(244,322)</b>
<b>Balance at 31 March 2019 carried forward</b>		<b>(31,333)</b>	<b>(212,908)</b>	<b>(244,240)</b>	<b>(12,255)</b>	<b>(139,934)</b>	<b>(396,430)</b>	<b>(1,577,883)</b>	<b>(1,974,313)</b>



# Presentation of Financial Statements

## 4. Cash Flow Statement

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

2017/18 £000s		Note	2018/19 £000s
<b>(156,011)</b>	<b>Net surplus or (deficit) on the provision of services</b>		<b>43,715</b>
343,603	Adjustment to surplus or deficit on the provision of services for noncash movements	25	93,284
(150,639)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(141,645)
<b>36,953</b>	<b>Net Cash flows from operating activities</b>		<b>(4,646)</b>
21,425	Net Cash flow s from Investing Activities	26	(21,746)
(34,694)	Net Cash flow s from Financing Activities	27	18,156
<b>23,683</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(8,235)</b>
100,281	Cash and cash equivalents at the beginning of the reporting period		123,964
<b>123,964</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>115,729</b>

# **Statement of Accounting Policies**

# Statement of Accounting Policies

This section explains the accounting policies that the council has applied in preparing these accounts. The Statement of Accounts summarises the council's transactions for the financial year 2018/19 and its position at the year-end 31st March 2019. The statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 'Code'). The council has adopted the historical cost accounting convention modified by the revaluation of certain types of Property, Plant and Equipment.

## Accruals of Income and Expenditure

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

In particular:

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

## Acquired and Discontinued Operations

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

## Capital Accounting Accounts

These comprise:-

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

## Statement of Accounting Policies

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

The above accounts are not available to fund future expenditure.

### Capital Receipts

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

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

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

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

### Carbon Reduction Commitment Scheme (CRC)

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

The government has announced its decision to close the CRC scheme following the 2018/19 compliance year and replace it with an increase in the Climate Change Levy to streamline the business energy tax landscape, in a revenue neutral way.

### Cash and Cash Equivalents

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

### Charges to Revenue for Non-current Assets

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

- Depreciation attributable to Property, Plant & Equipment used in service delivery
- Amortisation of intangible assets used in service delivery

# Statement of Accounting Policies

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

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

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

## Contingent Assets and Contingent Liabilities

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

## Council Tax and National Non Domestic Rates

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

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund in the year is taken to the Collection Fund Adjustment Account.

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

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

## Employee Benefits

### Benefits payable during employment

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

Compensated absences are periods of paid leave, and may be accumulating or non-accumulating. Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. They include annual leave, flexi-time and time in lieu. They may be vesting or non-vesting: where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement; where non-vesting, benefits lapse if an employee leaves before the vesting date.

The Government has issued regulations that mean the council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. The value of these benefits, for example the value of leave that an employee carries forward at year end, is accrued and transferred to the Accumulated Absences Account until used. The accrual is based on the salary applicable in the following

# Statement of Accounting Policies

accounting year, being the period in which the employee takes the benefit. The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

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

## Termination benefits

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

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

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

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

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

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

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

## Estimation Techniques

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

## Events after the Balance Sheet Date

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

## Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items are included in the cost of the service to which they relate when to do so would not distort the service expenditure. Otherwise they are to be disclosed separately in the Comprehensive Income and Expenditure Statement (CIES). The Code prohibits the treatment of any items of income or expense as 'extraordinary', therefore

# Statement of Accounting Policies

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.

## Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The measurement assumes that the transaction takes place in an orderly fashion between willing participants in the instrument's main market, who act in their own financial best interests, under the market conditions prevailing on the measurement date.

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

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

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

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

## Financial Instruments – Assets

Financial Instruments are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics. To meet the new Code requirements following the introduction of IFRS9, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement. This includes most trade receivables, loans receivable and other simple debt instruments.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of. This may also include investments in equity instruments where a designation to classify as FVOCI has been made.

# Statement of Accounting Policies

- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

## Financial Instruments – Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

## Foreign Currency transactions

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

## Grants and Contributions

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

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

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

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

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

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



## Statement of Accounting Policies

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

### Group Accounts

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

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

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

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

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

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

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

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

The latest review has resulted in a decision not to produce group accounts for 2018/2019, on the basis that the adjustment to produce group accounts is neither material in nature, nor enhances the overall value and clarity of the accounts for stakeholders. This decision will be reviewed each year in line with recommended good practice.

Investments in Hertfordshire Catering Limited, Herts Living Limited, Herts Fullstop Ltd and Herts at Home Ltd are recognised on the council's Balance Sheet as unquoted equity investments at cost. Investments in the PFI companies are not recognised as they are not material.

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

# Statement of Accounting Policies

## Heritage Assets

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

- Paintings
- Artefacts
- Sculptures

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

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

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

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

Disposals of heritage assets require member approval. On disposal the carrying amount of the heritage asset is derecognised. The gain or loss arising from de-recognition is the difference between the net disposal proceeds (if any) and the heritage asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

## Intangible Assets

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

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

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

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

## Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or for both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital

# Statement of Accounting Policies

appreciation does not meet the definition of an investment property and is accounted for as property, plant and equipment ("PPE").

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

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

## Inventories

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

## Leases

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

### The council as lessee

#### Finance leases

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

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

#### Operating leases

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

### The Council as lessor

#### Finance leases

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

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

# Statement of Accounting Policies

## Operating leases

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

## Arrangements that may contain a lease

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

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

## Long Term Contracts

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

## Non-Current Assets Held for Sale

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

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

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

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

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

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

# Statement of Accounting Policies

## Private Finance Initiative schemes (PFI)

### The Code of Practice

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

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

### Services received

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

### PFI asset

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

### PFI liability

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

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

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

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

### Lifecycle replacement

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

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

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

# Statement of Accounting Policies

## 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 (Non-Schools)	£10,000
Property (Schools)	£2,000
Infrastructure	£10,000
Vehicles, Plant and Equipment (Non-Schools)	£5,000
Vehicles, Plant and Equipment (Schools)	£2,000

### Measurement

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

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

## Statement of Accounting Policies

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

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

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

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

### Impairment

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

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

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

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

### Depreciation

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

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

## Statement of Accounting Policies

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

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

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

### De-recognition

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

### Componentisation:

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

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

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

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

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

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

As at 31<sup>st</sup> March 2019 all assets have been assessed for componentisation purposes.



# Statement of Accounting Policies

## Provisions

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

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

## Post-Employment Benefits

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

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

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

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

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

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

The change in the net 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

## Statement of Accounting Policies

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

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

### Revenue Expenditure Funded from Capital under Statute

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

### Schools Accounting Treatment

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

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

#### Community Schools

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

#### Voluntary Controlled Schools

Schools are usually owned by a charity but the council is responsible for the running of the school, employing the staff and determining and administering the admissions policy. Although the council does not have any clear legal

## Statement of Accounting Policies

entitlement to the asset, using the principal of faithful representation, the council has determined that it will receive future service potential from these assets, and that it holds significant control over them through the admissions policy which determines access to the asset, and its responsibility for the maintenance and development of the assets. The land, buildings and equipment of these schools will therefore be recognised by the council under Property, Plant and Equipment on the Balance Sheet of the council.

### Voluntary Aided Schools

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

### Foundation Schools

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

### Academies

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

### Free Schools

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

### Specific Reserves

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

### Value Added Tax

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

# Notes to the Accounts

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# Notes to the Accounts

## Note 1: Restatement and change in accounting policies

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

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

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

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

For 2018/19:

- 1) No PPA's were required to correct for material errors or omissions in the accounts.
- 2) There were no changes to accounting policies which required retrospective application.
- 3) There was one change to accounting policies which applies from 2018/19, in relation to IFRS9 Financial Instruments. Details of the new policy are given in the Statement of Accounting Policies.

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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), the council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following accounting standards have been issued but have not been adopted under the Code until 1 April 2019:

- IAS 40 Investment Property has been amended to require evidential change of use, on transfers of property to, or from, the investment property classification.
- Annual Improvements to IFRS 2014 – 2016 Cycle has made changes to three IFRS's:
  - IFRS 1 First Time Adoption of IFRS; the short term exemption has been removed
  - IFRS 12 Disclosure of Interests in Other Entities; the scope of the standard has been clarified
  - IFRS 28 Investments in Associates and Joint Ventures; clarified that election to measure at fair value for certain entities is available on an investment-by-investment basis.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration provides guidance on determining the appropriate interest rate in situations where foreign currency is either paid or received in advance of recognising the related asset, expense or income.
- IFRIC 23 Uncertainty over Income Tax Treatments provides guidance on how to correctly determine the tax treatment where there is uncertainty under IAS 12 Income Taxes.
- IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation amendment enables entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

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

# Notes to the Accounts

## Note 3: Critical Judgements in applying Accounting Policies

In applying the accounting policies set out earlier 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 2018/19 are:

### Schools Fixed Assets

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

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

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

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

### Complex Leases

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

### Heritage Assets

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

### 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 accounting practice. In October 2011 the Icelandic Supreme Court upheld the priority status of deposits held by UK local authorities and other UK wholesale



## Notes to the Accounts

depositors, and distributions have been received from Glitnir and Landsbanki HF. In February 2014 the council sold its claim against the insolvent estate of Landsbanki through an auction process. The sale of this claim means that the council has recovered 92% of the amounts originally deposited with Landsbanki in 2008.

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

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

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

### Better Care Fund

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

Within Hertfordshire, the pooled budget arrangements are governed by the Section 75 agreed between Hertfordshire County Council and East & North Herts CCG, Herts Valleys CCG and Cambridgeshire & Peterborough CCG through the Health & Wellbeing Board. Following Department of Health *Group Accounting Manual 2018-19 Chapter 4 Annex 8 – Accounting for Pooled Budgets and Joint Arrangements*, it is important that the accounting reflect in substance the differing patterns of control in place for different elements of the BCF.

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

### Local Enterprise Partnership

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

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

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

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

Balances relating to the LEP included with the council's accounts as at 31st March 2019 include earmarked reserves totalling £6.914m, capital grants unapplied of £57.3m and usable capital receipts of £0.5m.

# Notes to the Accounts

## Group Accounts

The council has interests in other entities which fall within the group boundary of the council on the grounds of control and significant influence in line with the Code. The council's interests in Hertfordshire Catering Limited, Herts Living Limited, Herts at Home Ltd and Herts Fullstop Ltd (which are all wholly owned subsidiaries) are not considered material to the council's overall financial position. Therefore group accounts have not been prepared for 2018/19.

## Future Funding for Local Government

The Statement of Accounts has been produced on a going concern basis. Despite the high degree of uncertainty about future levels of funding for local government, the council has determined that this uncertainty is not yet sufficient to materially impact on its financial statements. The council is well placed to achieve the level of savings required in the Medium Term Finance Forecast (MTFF), and continue to deliver its statutory services.

## Notes to the Accounts

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

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

Item	Uncertainties	Effect if actual results differ from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, which could impact on the useful lives of assets. The council has Property, Plant and Equipment with a Net Book Value of £3.355 billion on the Balance Sheet as at 31 <sup>st</sup> March 2019, with £66.381 million charged as depreciation during the year.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £0.746 million for every year that useful lives had to be reduced.</p>
<b>Pension Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied. The liability estimated as at 31st March 2019 was £1.2 billion.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £253 million. Full sensitivity analysis is disclosed in Note 37 Defined Benefit Pension Schemes.
<b>Provision for NNDR Appeals</b>	The value of National Non Domestic Rates (NNDR) income included in the accounts is reduced by a provision for the estimated value of appeals against valuation decisions, including backdating. These estimates have been calculated by billing authorities, using information from the Valuation Office on outstanding appeals and experience of successful appeal rates. The council's provision is based on its 10% share of the income lost on successful appeals.	Each 1% increase in the value of appeals that is provided for would give an additional cost of £0.079 million.
<b>Provision for Doubtful Debts</b>	The value of outstanding debtors in the accounts is reduced by a provision for estimated doubtful debts, based on the experience that it is not economic or possible to recover all debt. The council operates a policy of making provision for specified percentages of debt in age bands above 9 months. The council does not make provision for debt secured by legal charge against property, where checks have provided a high degree of certainty that the debt is recoverable.	Any debt deemed as irrecoverable over and above this provision will be a charge to service expenditure. Each 1% increase in the level of bad debt requiring write off will give an additional cost of £0.047m.

# Notes to the Accounts

## Note 5: Material Items of Income and Expense

### Service Income

There are no significant income streams to disclose.

### Service Expenditure

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

- **Abbots Care Ltd** – county-wide block contract for the provision of homecare and enablement homecare services (£7.9m);
- **Arriva Kent and Surrey Ltd** – Provision of supported bus service including concessionary fares (£8.2m);
- **Biffa Waste Services Limited** – for the disposal of waste at the Westmill landfill site (£5.7m);
- **Care By Us Ltd** – county-wide block contract as well as additional spot rate provision of homecare and enablement homecare services (£14.9m);
- **Central London Community Healthcare NHS Trust** – For the provision of sexual health services (£6.8m);
- **Crime Reductions Initiatives** – (known as CRI) for the provision of drug and alcohol support and prevention services (£6.8m);
- **FCC Recycling Ltd** – contractor for Waterdale and Hitchin Transfer Stations, Bletchley & Milton Landfill Sites, Greatmoor Energy From Waste site and haulage to all disposal points (£11m);
- **Hertfordshire Community NHS Trust** – for the provision of sexual health services and school nurses (£20.6m)
- **Hertfordshire School Building Partnership** – contract for Building Schools for the Future, Public Finance Initiative, Marriott's and Lonsdale Schools, Design Build Finance & Operate where a Unitary Charge is paid for the schools plus, as a pass through, utility costs (£8.4m);
- **Quantum Care Ltd** – contract for the provision of residential care home placements (£20.9m);
- **Ringway Infrastructure Services Ltd** – for the provision of highway maintenance work (£47.6m);
- **Runwood Homes Plc** – contract for the provision of residential care home placements (£6.1m);
- **Serco Plc** – for the provision of a range of support services and customer services as per the Core Shared Managed Services contract, broadening and deepening work, and for the provision of Social Care Access & Telecare; (£25m);
- **Viridor Waste Management Ltd** – disposal of waste at the Lakeside and Ardley Energy Recovery Facilities (£6m);
- **WSP UK Limited** – Highways consultants; main contractor for highways design (£6.8m).

## Note 6: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Resources on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events have taken place before this date, provided information about conditions existed at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

# Notes to the Accounts

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

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

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

# Notes to the Accounts

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

# Notes to the Accounts

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments involving the Capital Adjustment Account</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non current assets	49,967	-	-	(49,967)
Amortisation of intangible assets	(812)	-	-	812
Capital grants and contributions	50,336	-	-	(50,336)
Revenue expenditure funded from capital under statute	(51,220)	-	-	51,220
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	(74,691)	-	-	74,691
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	4,232	-	-	(4,232)
Capital expenditure charged against the General Fund balance	12,747	-	-	(12,747)
Use of Capital Reserves (Earmarked Reserves) to finance expenditure	-	-	-	-
<b>Adjustments involving the Capital Grants Unapplied Account</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	89,824	-	(89,824)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	61,333	(61,333)
Repayment of Grant	-	-	-	-
<b>Adjustment involving the Capital Receipts Reserve</b>				
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	1,396	(1,396)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	1,396	-	(1,396)
Transfer of LEP Loan repayment	-	-	-	-
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Transfer of deferred sale proceeds to the general fund in relation to Finance Leases	(111)	-	-	111

# Notes to the Accounts

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Reserve	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s
<b>Adjustments primarily involving the Financial Instruments</b>				
<b>Adjustment Account:</b>				
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(10,078)	-	-	<b>10,078</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	280	-	-	<b>(280)</b>
Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements	8	-	-	<b>(8)</b>
Soft Loans	112	-	-	<b>(112)</b>
<b>Adjustments involving the Pooled Fund Investment Account</b>				
Fair Value through P&L Revaluations 2018/19	(15)	-	-	<b>15</b>
<b>Adjustments involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(128,004)	-	-	<b>128,004</b>
Employer's pensions contributions and direct payments to pensioners payable in the year	75,964	-	-	<b>(75,964)</b>
<b>Adjustments involving the Collection Fund Adjustment Account</b>				
Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements	(7,468)	-	-	<b>7,468</b>
<b>Adjustment involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6,609	-	-	<b>(6,609)</b>
<b>Total Adjustments</b>	<b>14,376</b>	<b>-</b>	<b>(28,491)</b>	<b>14,116</b>



# Notes to the Accounts

## Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

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

### Balances not under HCC control

- **East Coast & Humberside Control Room Consortium** – Hertfordshire has taken over as the lead authority of the East Coast and Humberside Control Room Consortium from Humberside. The Consortium is comprised of 4 authorities (Hertfordshire, Humberside, Norfolk and Lincolnshire) and was set up to improve the resilience and efficiency of the control rooms of each authority. The consortium is funded by a MHCLG grant and Humberside have transferred the balance of the grant which will be held on a reserve to fund the Consortium going forward.
- **East Coast & Herts CRC – ESN** - A reserve created from specific grant funding received to support the upgrade to the Emergency Services Network (ESN), previously in East Coast & Humberside Control Room Consortium Reserve.
- **Local Enterprise Partnership (LEP) Capital Reserves** – these funds are set aside to support the Local Enterprise Partnership infrastructure initiative, providing funding for schemes to develop Hertfordshire's economy and infrastructure. The purpose of the reserve is to act as loan fund against infrastructure.
- **Local Enterprise Partnership (LEP) Revenue Reserves** – These funds have been set aside to generate economic activity by local enterprise partnerships. They also support the operating costs of the LEP.
- **Shared Anti-Fraud Service (SAFS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.
- **Shared Internal Audit Service (SIAS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.

### Balances held by schools under a scheme of delegation

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

### Balances under HCC control

- **Academy Conversion Reserve** - to finance the planning and legal costs associated with Academy conversions as the number of schools converting escalates.
- **Adult Care Services (Grants) Carryforwards** – carry forward reserve to be used for Local Welfare Provision and Health Funding.

## Notes to the Accounts

- **Bad Debt Reserve** – to provide for additional bad debt should this be required.
- **BSF PFI Reserve** – the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of the Building Schools for the Future project.
- **Business Rates Equalisation Reserve** – to manage volatility in council tax and business rates forecasting from District and Borough Councils.
- **Capital Financing Reserve** – created from revenue underspends, to be applied as Revenue Contributions to Capital Outlay to support future years' capital programmes.
- **Capital Receipts Spend to Release Reserve** – to be applied as Revenue Contributions to Capital Outlay to support capital spend enabling achievement of capital receipts.
- **Commuted Maintenance** – sums secured in year through the development of legal agreements to fund maintenance of non-standard assets in the future. A withdrawal is made on the basis of a long term plan of maintenance need. Income is added at the end of each year from negotiated settlements with contractors for new developments.
- **Corporate Carry Forwards** – this relates to the carry forward of agreed budgets relating to specific projects planned for 2017/18 but now expected to complete in later years.
- **Corporate Managed Properties** – monies carried forward to be used for maintenance on shared managed properties.
- **Corporate Transformation Reserve** - A dedicated reserve for collaborative, corporate transformation to meet the anticipated future cost of organisational change (beyond the provisions made via the ITT fund).
- **County Council Elections** – to meet the cost of County Council elections held every 4 years.
- **Cuffley Camp Reserve** – to cover costs arising following termination of lease at Cuffley Camp.
- **Economic Growth Fund** – Hertfordshire County Council has set aside 32% of its share of the Business Rates Pool gain (8% of the total Net Retained Levy) in an Economic Growth Fund, to be allocated to projects and initiatives that support economic development and the growth of the NNDR taxbase in Hertfordshire.
- **Education & Early Intervention Reserve** - to be used for education, support & intervention in Schools, Learning Centres and alternative education and recreation settings.
- **Education Support Reserve** – to support improved educational outcomes in schools.
- **Flood and Water Management** – funds set aside to support the new sustainable urban drainage responsibility.
- **General Contingency Reserve** – reserve held to address known issues that have arisen but not be resolved within the year.
- **Hadham Towers Restoration** – to provide for essential restoration work to return the former Hadham Towers Waste Disposal site to its original use as agricultural land.
- **Hertfordshire Safeguarding Adults Board** – partner contributions held to fund additional expenditure/meet any future shortfalls.
- **Herts Music Service - Music Donations** – this fund comprises of legacy donations to the Music Service held in practice on trust for the purposes for which it was donated, namely to support Music Centres across the County.

## Notes to the Accounts

- **Infrastructure & Sustainable Transport** - To fund projects for development of major infrastructure and sustainable transport to address future growth.
- **Innovation Grant Wave 3** - Funding for the roll-out of the Family Safeguarding model as part of the Department for Education's Strengthening Families programme, in addition to some other funding relating to the Family Safeguarding programme.
- **Innovation Fund (Children's Services)** – this reserve will be used to fund both phase 1 and phase 2 of the Family Safeguarding (Innovation Fund) project.
- **Invest to Transform** – reserve set aside to support innovative projects across the council that will underpin service transformation and deliver future efficiencies.
- **Investment Reserve** – reserve created from MRP savings to be used for capital financing and other investments.
- **LAMS Reserve** - holds funds set aside to support the council's participation in the LAMS scheme which facilitates mortgage lending to eligible Hertfordshire residents. As the scheme is now closed, these funds have been redesignated to support the Property Development Programme.
- **Members Highway Locality Reserve** - funding for Member prioritised highway spending.
- **MMI Reserve** - a specific reserve set up in recognition of the increased risk relating to the Municipal Mutual Insurance contingent liability.
- **Nobel Lifecycle fund** – reserve set up to be used over the next 10 years to fund future obligations for lifecycle works as they become required.
- **Non-Ringfenced Grants Carryforward Reserve** - To carryforward non-ringfenced grants where they have been received towards the end of the financial year and funding is required to support expenditure in the next financial year.
- **Planning Delivery Grant** – reserve held for the installation of a new development management IT system.
- **Private Finance Initiative (PFI) Equalisation Reserve** – the reserve represents the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of young persons' homes and family centres.
- **Proceeds of Crimes Act (POCA) Receipts** - Proceeds of Crimes Act held by the council in respect of ongoing trading standards and Serious and Organised Crime Agency (SOCA) court cases, to be spent on Community Protection activities.
- **Public Health** – carry forward reserve to support Public Health priorities and development.
- **Safeguarding & Specialist Services** - to be used to finance safeguarding vulnerable children.
- **Salix** - to meet capital costs of energy conservation works; replenished by repayment of a proportion of ongoing savings.
- **School Improvement Grant Reserve** - to support continued monitoring of performance of maintained schools, broker school improvement provision and intervene where it is felt appropriate.
- **Self-Insurance Reserve** - a reserve to cover for uninsured liabilities in respect of employer's liability, third party insurance and potential costs incurred as a result of storm damage.
- **SEND Reform Grant** – a reserve created from grant funding received to support the transition from statements of SEN to combined Education, Health & Care (EHC) Plans.

## Notes to the Accounts

- **Spatial Planning Reserve** - to fund development of strategic spatial framework for the County and in particular, support the outcomes from the "Devo" discussions which are specifically examining joint working on planning and infrastructure issues. There is also a need to use this reserve to fund transport strategy work to support the next round of transport infrastructure bids to the LEP's Strategic Growth Fund.
- **Statutory Planning Authority Inquiries** – to meet costs associated with attending public inquiries as the Statutory Planning Authority, which vary significantly between years and the public examination of local plans.
- **Thriving Families Reserve** – relates to grant monies for Thriving Families, a multi-year programme which has recently been extended by central government.
- **Transition Reserve** – to support the management of the identified savings gap between 2019/20 and 2021/22, recognising the risk to the council of the implementation of a new local government financing model.
- **Waste Reserve** – set up to support the project dealing with the long term treatment of residual waste.
- **Waste Week 53 Reserve** - to provide payment to contractor as per an agreed schedule. The annual schedule is payment for exactly 52 weeks over any given year. Every six or seventh year the schedule has to increase to 53 weeks and an annual contribution is made to the reserve to cover this.
- **Watford Music Service** – this fund (a requirement of the agreement with Watford Grammar School for Boys), is held against future liabilities for this Music Centre.

## Notes to the Accounts

Balance at 1 April 2017	Transfers out 2017/18	Transfers in 2017/18	Net Transfers during 2017/18	Balance at 31 March 2018		Capital (C) or Revenue (R)	Balance at 1 April 2018	Transfers out 2018/19	Transfers in 2018/19	Net Transfers during 2018/19	Balance at 31 March 2019
£000s	£000s	£000s	£000s	£000s			£000s	£000s	£000s	£000s	£000s
(2,896)	1,265	(8)	1,256	(1,640)	East Coast & Humberside Control Room Consortium	R	(1,640)	1,453	(7)	1,447	(193)
-	-	-	-	-	East Coast & Herts CRC - ESN	R	-	-	(560)	(560)	(560)
(62)	62	-	62	-	Local Enterprise Partnership (LEP) Capital Reserves	R	-	-	-	-	-
(6,925)	485	(333)	152	(6,774)	Local Enterprise Partnership (LEP) Revenue Reserves		(6,774)	228	(370)	(141)	(6,915)
(97)	13	-	13	(84)	Shared Anti Fraud Service (SAFS) Surplus	R	(84)	30	-	30	(54)
(70)	-	(7)	(7)	(77)	Shared Internal Audit Service (SIAS) Surplus	R	(77)	-	(69)	(69)	(146)
<b>(10,050)</b>	<b>1,825</b>	<b>(348)</b>	<b>1,476</b>	<b>(8,575)</b>	<b>Balances not under HCC control</b>	-	<b>(8,575)</b>	<b>1,712</b>	<b>(1,005)</b>	<b>707</b>	<b>(7,868)</b>
<b>(58,783)</b>	<b>59,195</b>	<b>(61,936)</b>	<b>(2,741)</b>	<b>(61,523)</b>	Schools Balances	R	<b>(61,523)</b>	<b>66,359</b>	<b>(68,129)</b>	<b>(1,770)</b>	<b>(63,293)</b>
(194)	193	-	193	-	Strategic Area Partnership	R	-	-	-	-	-
(846)	434	-	434	(412)	Community Focused Extended School Activities	R	(412)	352	-	352	(60)
(21,289)	8,560	(10,605)	(2,045)	(23,334)	Schools Budget Central Expenditure	R	(23,334)	5,821	(4,153)	1,668	(21,666)
(1,731)	1,731	(1,516)	215	(1,516)	ESC Balances	R	(1,516)	1,546	(1,866)	(320)	(1,836)
<b>(82,842)</b>	<b>70,114</b>	<b>(74,057)</b>	<b>(3,943)</b>	<b>(86,785)</b>	<b>Balances held by schools under a scheme of delegation</b>		<b>(86,785)</b>	<b>74,078</b>	<b>(74,148)</b>	<b>(70)</b>	<b>(86,855)</b>
(1,000)	-	-	-	(1,000)	Academy Conversion Reserve	R	(1,000)	-	-	-	(1,000)
(472)	472	(6,154)	(5,682)	(6,154)	Adult Care Services Carryforwards	R	(6,154)	5,054	(5,862)	(808)	(6,962)
-	-	(1,115)	(1,115)	(1,115)	Adult Care Services Grant Carryforwards	R	(1,115)	1,233	(1,709)	(476)	(1,591)
-	-	(2,583)	(2,583)	(2,583)	Bad Debt Reserve	R	(2,583)	-	-	-	(2,583)
(4,116)	350	(582)	(232)	(4,348)	BSF PFI Reserve	R	(4,348)	442	(702)	(259)	(4,607)
-	-	(1,103)	(1,103)	(1,103)	Business Rates Equalisation Reserve	R	(1,103)	-	(337)	(337)	(1,440)
-	-	(2,287)	(2,287)	(2,287)	Capital Financing Reserve	C	(2,287)	-	-	-	(2,287)
(823)	-	-	-	(823)	Capital Receipts Spend to Release Reserve	C	(823)	-	-	-	(823)
(516)	-	(492)	(492)	(1,008)	Commuted Maintenance	R	(1,008)	-	(243)	(243)	(1,251)
(1,091)	366	(4,820)	(4,454)	(5,545)	Corporate Carry Forwards	R	(5,545)	3,421	(1,141)	2,280	(3,265)
(290)	-	-	-	(290)	Corporate Managed Properties	R	(290)	290	-	290	-
-	-	-	-	-	Corporate Transformation Reserve	R	-	-	(417)	(417)	(417)
(1,016)	1,016	(4)	1,011	(5)	County Council Elections	R	(5)	-	(347)	(347)	(352)
-	-	(705)	(705)	(705)	Cuffley Camp Reserve	R	(705)	643	-	643	(62)
(190)	-	-	-	(190)	Economic Growth Fund	R	(190)	147	(474)	(327)	(517)
(290)	43	(155)	(112)	(402)	Education & Early Intervention Reserve	R	(402)	33	(80)	(47)	(449)
-	-	(1,290)	(1,290)	(1,290)	Education Support Reserve	R	(1,290)	-	-	-	(1,290)
(159)	159	-	159	-	Flood and Water Mgmt	R	-	-	-	-	-

## Notes to the Accounts

Balance at 1 April 2017	Transfers out 2017/18	Transfers in 2017/18	Net Transfers during 2017/18	Balance at 31 March 2018		Capital (C) or Revenue (R)	Balance at 1 April 2018	Transfers out 2018/19	Transfers in 2018/19	Net Transfers during 2018/19	Balance at 31 March 2019
£000s	£000s	£000s	£000s	£000s			£000s	£000s	£000s	£000s	£000s
-	-	(2,789)	(2,789)	(2,789)	General Contingency Reserve	R	(2,789)	2,815	(2,789)	26	(2,763)
(126)	-	-	-	(126)	Hadham Towers Restoration	R	(126)	126	-	126	-
(162)	14	-	14	(148)	Hertfordshire Safeguarding Adults Board	R	(148)	5	-	5	(143)
(264)	-	(3)	(3)	(266)	Herts Music Service - Music Donations	R	(266)	-	-	-	(266)
-	-	-	-	-	Infrastructure & Sustainable Transport	R	-	-	(2,000)	(2,000)	(2,000)
-	-	-	-	-	Innovation Grant Wave 3	R	-	-	(158)	(158)	(158)
(2,489)	756	-	756	(1,733)	Innovation Fund (Children's Services)	R	(1,733)	99	-	99	(1,634)
(21,070)	2,278	(2,090)	187	(20,883)	Invest to Transform	R	(20,883)	5,496	(6,428)	(932)	(21,815)
-	-	(6,300)	(6,300)	(6,300)	Investment Reserve	R	(6,300)	-	(6,300)	(6,300)	(12,600)
(2,234)	242	(111)	131	(2,103)	LAMS reserve	R	(2,103)	-	(6)	(6)	(2,109)
(50)	50	(321)	(271)	(321)	Members Highway Locality	R	(321)	321	(475)	(154)	(475)
(953)	320	-	320	(633)	MMI Reserve	R	(633)	276	-	276	(357)
(358)	9	-	9	(349)	Nobel Lifecycle Fund	R	(349)	219	(2)	217	(132)
-	-	-	-	-	Non-Ringfenced Grants Carryforward Reserve	R	-	-	(3,071)	(3,071)	(3,071)
(109)	58	(39)	19	(90)	Planning Delivery Grant	R	(90)	48	-	48	(42)
(1,754)	-	(6)	(6)	(1,760)	PFI Equalisation Reserve	R	(1,760)	-	(12)	(12)	(1,772)
(329)	43	(51)	(9)	(337)	POCA Receipts	R	(337)	50	(57)	(7)	(344)
(3,946)	578	(1,312)	(734)	(4,680)	Public Health	R	(4,680)	1,127	(946)	181	(4,499)
(342)	140	(80)	60	(282)	Safeguarding & Specialist Services	R	(282)	156	(360)	(204)	(486)
(77)	266	(301)	(35)	(111)	Salix	R	(111)	329	(326)	4	(107)
-	-	-	-	-	School Improvement Grant Reserve	R	-	-	(619)	(619)	(619)
(1,832)	-	(4,819)	(4,819)	(6,651)	Self-Insurance Reserve	R	(6,651)	-	(2,966)	(2,966)	(9,617)
(489)	519	(564)	(45)	(534)	SEND Reform grant	R	(534)	412	-	412	(122)
(111)	-	-	-	(111)	Spatial Planning Reserve	R	(111)	-	-	-	(111)
(387)	-	-	-	(387)	Statutory Planning Authority Inquiries	R	(387)	387	-	387	-
(565)	19	(258)	(239)	(804)	Thriving Families	R	(804)	595	-	595	(209)
-	-	(3,000)	(3,000)	(3,000)	Transition Reserve	R	(3,000)	-	(11,960)	(11,960)	(14,960)
(8,000)	-	-	-	(8,000)	Waste Reserve	C	(8,000)	-	-	-	(8,000)
(1,064)	-	(192)	(192)	(1,257)	Waste Week 53	R	(1,257)	760	(139)	621	(636)
(221)	-	(22)	(22)	(243)	Watford Music Service	R	(243)	-	-	-	(243)
<b>(56,893)</b>	<b>7,697</b>	<b>(43,548)</b>	<b>(35,851)</b>	<b>(92,746)</b>	<b>Balances under HCC control</b>		<b>(92,746)</b>	<b>24,484</b>	<b>(49,926)</b>	<b>(25,441)</b>	<b>(118,185)</b>
<b>(149,785)</b>	<b>79,636</b>	<b>(117,953)</b>	<b>(38,318)</b>	<b>(188,105)</b>	<b>Total</b>		<b>(188,105)</b>	<b>100,274</b>	<b>(125,079)</b>	<b>(24,804)</b>	<b>(212,908)</b>

# Notes to the Accounts

## Note 9: Other Operating Expenditure

2017/18		2018/19
£000s		£000s
2,112	Levies	2,046
199,224	(Gains) / Losses on the disposal of non current assets	73,295
(6,139)	Operating expenditure and income not attributable to services	(5,718)
<b>195,197</b>	<b>Total</b>	<b>69,623</b>

Levies are paid to the Environment Agency and the Lee Valley Regional Park.

The loss on the disposal of non-current assets in 2018/19 includes accounting for maintained schools converting to Foundation, Academy or Voluntary Aided status. This has resulted in a transfer of land, property, plant and equipment of £70.2m.

The figure for operating income not attributable to services includes £5.0m of rental income to the council relating to properties leased out as care homes. The comparative figure for 2017/18 was £5.6m.

## Note 10: Financing and Investment Income and Expenditure

2017/18		2018/19
£000s		£000s
17,622	Interest payable and similar charges	27,849
28,216	Pensions interest cost and expected return on pensions assets	28,028
(4,248)	Interest receivable and similar income	(3,661)
(792)	Surplus or Deficit on Trading Operations	(957)
<b>40,798</b>	<b>Total</b>	<b>51,259</b>

## Note 11: Taxation and Non Specific Grant Income

2017/18		2018/19
£000s		£000s
(549,462)	Council Tax income	(588,765)
(114,732)	Non domestic rates	(119,761)
(194,907)	Non-ringfenced government grants	(175,936)
<b>(859,101)</b>	<b>Total</b>	<b>(884,461)</b>

# Notes to the Accounts

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

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

Movements in 2017/18	Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant & Equipment
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Cost or Valuation</u></b>								
<b>At 1 April 2017</b>	<b>2,126,256</b>	<b>51,979</b>	<b>979,310</b>	-	<b>127,004</b>	<b>13,523</b>	<b>3,298,072</b>	<b>65,848</b>
Additions	27,367	8,705	68,552	-	10,459	4,498	119,581	-
Donations	-	-	-	-	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	13,523	-	-	-	41,556	-	55,078	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	9,318	-	-	-	4,150	-	13,468	-
Derecognition - Disposals	(192,849)	(12,039)	-	-	(988)	-	(205,875)	-
Derecognition – Other	(916)	(1,446)	-	-	(8)	-	(2,371)	-
Assets reclassified (to) / from Held for Sale	(625)	-	-	-	(50)	-	(675)	-
Other movements in Cost or Valuation	1,759	6,095	-	-	7,840	(16,466)	(772)	-
<b>At 31 March 2018</b>	<b>1,983,833</b>	<b>53,293</b>	<b>1,047,862</b>	-	<b>189,962</b>	<b>1,556</b>	<b>3,276,506</b>	<b>65,848</b>
<b><u>Accumulated Depreciation and Impairment</u></b>								
<b>At 1 April 2017</b>	<b>(26,386)</b>	<b>(26,350)</b>	<b>(277,539)</b>	-	<b>(334)</b>	-	<b>(330,610)</b>	<b>(2,375)</b>
Depreciation Charge	(28,696)	(11,408)	(28,086)	-	(670)	-	(68,860)	(2,582)
Depreciation written out to the Revaluation Reserve	10,785	-	-	-	239	-	11,023	-
Depreciation written out to the Surplus / Deficit on the Provision of Service	15,365	-	-	-	105	-	15,470	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - Disposals	4	11,311	-	-	-	-	11,315	-
Derecognition – Other	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-
Other movements in Depreciation and Impairments	(4)	-	-	-	4	-	-	-
<b>At 31 March 2018</b>	<b>(28,934)</b>	<b>(26,447)</b>	<b>(305,625)</b>	-	<b>(656)</b>	-	<b>(361,661)</b>	<b>(4,957)</b>
<b><u>Net Book Value</u></b>								
<b>At 31 March 2017</b>	<b>2,099,870</b>	<b>25,628</b>	<b>701,771</b>	-	<b>126,670</b>	<b>13,523</b>	<b>2,967,462</b>	<b>63,473</b>
<b>At 31 March 2018</b>	<b>1,954,899</b>	<b>26,846</b>	<b>742,237</b>	-	<b>189,306</b>	<b>1,556</b>	<b>2,914,845</b>	<b>60,891</b>



# Notes to the Accounts

Movements in 2018/19	Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant & Equipment
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Cost or Valuation</u></b>								
<b>At 1 April 2018</b>	<b>1,983,833</b>	<b>53,293</b>	<b>1,047,862</b>	-	<b>189,962</b>	<b>1,556</b>	<b>3,276,506</b>	<b>65,848</b>
Additions	31,842	9,479	86,374	-	3,072	1,216	131,982	-
Donations	-	-	-	-	-	-	-	-
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve	282,950	-	-	-	22,418	-	305,368	-
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services	112,367	-	-	-	(6,980)	-	105,387	-
Derecognition - Disposals	(71,522)	(7,096)	-	-	(1,474)	-	(80,091)	-
Derecognition – Other	(908)	-	-	-	-	-	(908)	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(1,391)	-	(1,391)	-
Other movements in Cost or Valuation	6,763	972	-	-	(6,763)	(972)	-	-
<b>At 31 March 2019</b>	<b>2,345,325</b>	<b>56,648</b>	<b>1,134,236</b>	-	<b>198,843</b>	<b>1,800</b>	<b>3,736,853</b>	<b>65,848</b>
<b><u>Accumulated Depreciation and Impairment</u></b>								
<b>At 1 April 2018</b>	<b>(28,934)</b>	<b>(26,447)</b>	<b>(305,625)</b>	-	<b>(656)</b>	-	<b>(361,661)</b>	<b>(4,957)</b>
Depreciation Charge	(26,203)	(10,030)	(29,402)	-	(746)	-	(66,381)	(2,329)
Depreciation written out to the Revaluation Reserve	27,449	-	-	-	789	-	28,238	-
Depreciation written out to the Surplus / Deficit on the Provision of Service	10,779	-	-	-	183	-	10,962	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - Disposals	24	6,903	-	-	-	-	6,927	-
Derecognition – Other	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-
Other movements in Depreciation and Impairments	-	-	-	-	-	-	-	-
<b>At 31 March 2019</b>	<b>(16,885)</b>	<b>(29,575)</b>	<b>(335,026)</b>	-	<b>(430)</b>	-	<b>(381,916)</b>	<b>(7,286)</b>
<b><u>Net Book Value</u></b>								
<b>At 31 March 2018</b>	<b>1,954,899</b>	<b>26,846</b>	<b>742,237</b>	-	<b>189,306</b>	<b>1,556</b>	<b>2,914,845</b>	<b>60,891</b>
<b>At 31 March 2019</b>	<b>2,328,440</b>	<b>27,074</b>	<b>799,209</b>	-	<b>198,414</b>	<b>1,800</b>	<b>3,354,937</b>	<b>58,562</b>

# Notes to the Accounts

## Capital Commitments

The value of material contracts to which the council is committed to as at the 31st March 2019 is estimated at £50.317m (£36.915m in 2017/18). For the purposes of this note a commitment is considered material if it exceeds a value of £500,000.

Description	£000s
Schools - Secondary Development Agreements	16,065
Schools - other improvement works	8,008
Other School expansion / development schemes	2,980
Carriageway works	21,258
Other Highways works	1,377
Structures	629
<b>Total</b>	<b>50,317</b>

## Revaluations

The council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations were carried out by an external valuer, Carter Jonas. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

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

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

## Notes to the Accounts

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

### 5 year revaluation table

	Land and Buildings £000s	Vehicles, Plant, Furniture and Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in Property, Plant and Equipment £000s
<u>Valued at Historic Cost</u>	-	27,073	799,209	-	-	1,801	828,083	2,604
<u>Valued at Current Value in:</u>								
2014/15	19,268	-	-	-	-	-	19,268	13,544
2015/16	47,982	-	-	-	-	-	47,982	42,414
2016/17	199,786	-	-	-	5,181	-	204,967	-
2017/18	164,969	-	-	-	67,507	-	232,476	-
2018/19	1,896,435	-	-	-	125,725	-	2,022,160	-
<b>Grand Total</b>	<b>2,328,440</b>	<b>27,073</b>	<b>799,209</b>	<b>-</b>	<b>198,413</b>	<b>1,801</b>	<b>3,354,936</b>	<b>58,562</b>

### Disposals

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

### Investment Properties

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

### Surplus Assets

Information about the fair values of the surplus assets as at 31st March 2019 is as follows:

31 March 2019			
Level 1	Level 2	Level 3	Fair Value
Quoted Prices in active market for identical assets	Observable inputs for the asset	Unobservable inputs for the asset	
£000s	£000s	£000s	£000s
-	169,912	28,502	198,413

# Notes to the Accounts

## Note 13: Heritage Assets

	Paintings £000s	Artefacts £000s	Sculptures £000s	Total Assets £000s
<b>Cost or valuation</b>				
1 April 2017	1,879	87	31,072	33,038
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations	28	-	(512)	(483)
Impairments	-	-	-	-
<b>31 March 2018</b>	<b>1,908</b>	<b>87</b>	<b>30,560</b>	<b>32,555</b>
<b>Cost or valuation</b>				
1 April 2018	1,908	87	30,560	32,555
Additions	-	-	-	-
Disposals	(544)	-	(30)	(574)
Revaluations	26	-	(1)	25
Impairments	-	-	-	-
<b>31 March 2019</b>	<b>1,390</b>	<b>87</b>	<b>30,529</b>	<b>32,006</b>

The collection consists of nearly 1700 paintings, sculptures, murals and other art works in County Hall, in other council properties including libraries and schools and on loan to museums.

During 2018/19, an exercise was undertaken by the council's Valuers which resulted in a revaluation gain of £0.025m recognised in year.

152 works were sold at auction during 2018/19. Part of these proceeds have been earmarked for ongoing maintenance of the remaining collection.

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

### Sculptures

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

The highest value items are reviewed annually and TVS have advised that the value of these items have not changed since 31 March 2018.

The council has four key sculptures:

- Henry Moore, family group valued at £25m;
- The stone figures of Queen Eleanor from Waltham Cross (on loan) valued at £3.5m;
- Barbara Hepworth, Eocene valued at £1.5m;
- Barbara Hepworth, Turning Forms valued at £350k.

# Notes to the Accounts

## 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 our documented records and our photographic archive, and undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

A review of items within the collection was carried out as at 31 March 2019, resulting in a revaluation gain of £28,000. TVS have confirmed that there are no other significant changes in value.

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

Key works within the remaining art collection are: -

- Philip Mercier, Portrait of Frederick Lewis, Prince of Wales valued at £100,000;
- Philip Mercier, Portrait of Princess Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Amelia, Daughter of King George II and Queen Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Anne, Daughter of King George II and Queen Caroline valued at £80,000;
- Ceri Richards, 'Matisse' mural valued at £60,000;
- Sir Thomas Lawrence, Portrait of William Plummer valued at £60,000;
- 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;
- Richard Westall, The Shepherd in a Storm valued at £50,000.

## Artefacts

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

## Hertfordshire Archives and Local Studies (HALS)

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

## Preservation and Management

The council has not undertaken any major repairs or restoration of any of its heritage assets in 2018/19. 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 art collection is currently being reviewed and rationalised by the Resources directorate. As part of this process an audit of the retained collection will be undertaken to identify conservation requirements; and the collection management system updated. The remaining collection is managed by Property, who administers a limited range of repairs and maintenance, related to investment projects or requests for intervention for support for maintenance from schools.

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

## Notes to the Accounts

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

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

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

Disposal of heritage assets 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.

# Notes to the Accounts

## Note 14: Intangible Assets

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

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

2017/18				2018/19		
Software & Licences	Portal & Web Design	Total		Software & Licences	Portal & Web Design	Total
			<b><u>Balance at start of year</u></b>			
6,513	63	<b>6,575</b>	Gross carrying amount	7,587	63	<b>7,649</b>
(2,976)	(50)	<b>(3,026)</b>	Accumulated amortisation	(3,865)	(63)	<b>(3,928)</b>
<b>3,537</b>	<b>13</b>	<b>3,550</b>	Net carrying amount at start of year	<b>3,721</b>	-	<b>3,721</b>
			<b><u>Changes in year</u></b>			
352	-	<b>352</b>	Purchases	537	-	<b>537</b>
(940)	(13)	<b>(952)</b>	Amortisation for the period	(812)	-	<b>(812)</b>
772	-	<b>772</b>	Other changes	-	-	-
<b>3,721</b>	-	<b>3,721</b>	<b>Net carrying amount at end of year</b>	<b>3,446</b>	-	<b>3,446</b>
			<u>Comprising:</u>			
7,587	63	<b>7,649</b>	Gross carrying amount	8,045	63	<b>8,107</b>
(3,865)	(63)	<b>(3,928)</b>	Accumulated amortisation	(4,599)	(63)	<b>(4,661)</b>
<b>3,721</b>	-	<b>3,721</b>	<b>Net carrying amount at end of year</b>	<b>3,446</b>	-	<b>3,446</b>

# Notes to the Accounts

## Note 15: Capital Expenditure and Capital Financing

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

2017/18			2018/19	
£000s	£000s		£000s	£000s
	<b>531,007</b>	<b>Opening Capital Financing Requirement</b>		<b>558,361</b>
		<b><u>Capital investment</u></b>		
119,581		Property, Plant and Equipment	131,982	
-		Investment Properties	-	
762		Loans for another body's capital expenditure	-	
-		Investments treated as capital	-	
352		Intangible Assets	537	
30,056		Revenue Expenditure Funded from Capital under Statute	51,220	
	<b>150,750</b>			<b>183,739</b>
		<b><u>Sources of finance</u></b>		
(18,119)		Capital receipts	(1,396)	
65		Capital Reserves	-	
(91,358)		Government grants and other contributions	(111,670)	
		Sums set aside from revenue:		
(3,161)		Minimum Revenue Provisions	(4,232)	
(10,824)		Direct revenue contributions	(12,747)	
	<b>(123,397)</b>			<b>(130,044)</b>
	<b>558,361</b>	<b>Closing Capital Financing Requirement</b>		<b>612,056</b>
		<b><u>Explanation of movements in year:</u></b>		
	30,514	Increase in the underlying need to borrow		57,927
	(3,161)	Decrease in the underlying need to borrow		(4,232)
	-	Assets acquired under finance leases		-
	-	Assets acquired under PFI/PPP contracts		-
	<b>27,354</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>		<b>53,695</b>



# Notes to the Accounts

## Note 16: Leases

### Council as Lessee

#### Finance Leases

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

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

31 March 2018		31 March 2019	
£000s		£000s	
33,524	Other Land and Buildings	32,693	
28	Vehicles, Plant, Furniture and Equipment	-	
<b>33,552</b>	<b>Total</b>	<b>32,693</b>	

The council is committed to making the minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the council and finance costs that will be payable by the council in future years while the liability remains outstanding. The council's last outstanding finance lease in (council as lessee) expired during this financial year and therefore no further lease payments are due.

31 March 2018		31 March 2019	
£000s		£000s	
	Finance lease liabilities (Net Present Value of minimum lease payments):		
35	current	-	
-	non-current	-	
2	Finance costs payable in future years	-	
<b>36</b>	<b>Minimum Lease Payments</b>	<b>-</b>	

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

31 March 2018		31 March 2019	
Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments
£000s	£000s	£000s	£000s
35	36	-	-
-	-	-	-
-	-	-	-
<b>35</b>	<b>36</b>	<b>-</b>	<b>-</b>

## Notes to the Accounts

### Operating Leases

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

31 March 2018		31 March 2019	
£000s		£000s	
3,898	Not later than one year	4,145	
9,518	Later than one year and not later than five years	8,068	
19,222	Later than five years	19,437	
<b>32,638</b>	<b>Minimum lease payments</b>	<b>31,650</b>	

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

31 March 2018		31 March 2019	
£000s		£000s	
3,395	Land & Buildings	3,404	
574	Vehicles	746	
<b>3,969</b>	<b>Total</b>	<b>4,150</b>	

### Council as Lessor

#### Finance Leases

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

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

31 March 2018		31 March 2019	
£000s		£000s	
	Finance lease liabilities (Net Present Value of minimum lease payments):		
111	current	118	
2,970	non-current	2,852	
8,044	Unearned finance income	7,460	
2,359	Unguaranteed residual interest of property	2,359	
<b>13,484</b>	<b>Gross investment in the lease</b>	<b>12,789</b>	

## Notes to the Accounts

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

31 March 2018			31 March 2019		
Gross investment in the lease	Minimum Lease Payments		Gross investment in the lease	Minimum Lease Payments	
£000s	£000s		£000s	£000s	
695	695	Not later than one year	695	695	
2,779	2,779	Later than one year and not later than five years	2,779	2,779	
10,010	7,651	Later than five years	9,315	6,956	
<b>13,484</b>	<b>11,124</b>	<b>Total</b>	<b>12,789</b>	<b>10,430</b>	

### Operating Leases

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

31 March 2018		31 March 2019	
£000s		£000s	
5,978	Not later than one year	6,033	
19,716	Later than one year and not later than five years	22,190	
90,412	Later than five years	103,108	
<b>116,107</b>	<b>Total</b>	<b>131,330</b>	

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

2017/18		2018/19	
£000s		£000s	
6,804	Land & Buildings	5,978	
-	Vehicles	-	
<b>6,804</b>	<b>Total</b>	<b>5,978</b>	

# Notes to the Accounts

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

The Code of Practice 2018/19 requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the council, public services related to infrastructure. In addition, IFRIC 12 requires the council to:

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

### Children's Services

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

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

31 March 2018				31 March 2019		
Capital	Interest	Service		Capital	Interest	Service
£000s	£000s	£000s		£000s	£000s	£000s
695	989	1,287	Not later than one year	741	941	1,321
3,191	3,455	5,696	Later than one year and not later than five years	3,363	3,239	5,906
4,938	2,968	8,882	Later than five years and not later than ten years	5,033	2,636	9,532
6,138	1,216	11,352	Later than ten years and not later than fifteen years	5,131	822	9,029
<b>14,964</b>	<b>8,628</b>	<b>27,218</b>	<b>Total</b>	<b>14,268</b>	<b>7,639</b>	<b>25,788</b>

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

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

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

2017/18		2018/19	
£000s		£000s	
16,185	Balance outstanding at start of year	15,599	
(586)	Payments during the year	(695)	
-	- Capital expenditure incurred during the year	-	
-	- Other movements	-	
<b>15,599</b>	<b>Balance outstanding at end of year</b>	<b>14,903</b>	

# Notes to the Accounts

## Building Schools for the Future

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

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

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

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

31 March 2018				31 March 2019		
Capital	Interest	Service		Capital	Interest	Service
£000s	£000s	£000s		£000s	£000s	£000s
977	3,656	2,147	Not later than one year	1,127	3,562	2,133
4,765	13,587	9,377	Later than one year and not later than five years	4,840	13,142	10,079
7,801	14,250	14,303	Later than five years and not later than ten years	8,513	13,507	14,713
10,709	9,963	18,381	Later than ten years and not later than fifteen years	11,666	8,944	18,904
15,258	3,781	16,823	Later than fifteen years and not later than twenty years	12,388	2,426	13,020
<b>39,510</b>	<b>45,238</b>	<b>61,030</b>	<b>Total</b>	<b>38,534</b>	<b>41,582</b>	<b>58,849</b>

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

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

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

2017/18		2018/19	
£000s		£000s	
41,388	Balance outstanding at start of year	40,335	
(1,054)	Payments during the year	(977)	
-	- Capital expenditure incurred during the year	-	
-	- Other movements	-	
<b>40,335</b>	<b>Balance outstanding at end of year</b>	<b>39,358</b>	

# Notes to the Accounts

## Note 18: Debtors

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

### Short-Term:

31 March 2018		31 March 2019	
£000s		£000s	
31,475	Central government bodies	33,650	
54,802	Other local authorities	51,173	
6,491	NHS bodies	4,578	
-	Public corporations and trading funds	1	
53,314	Other entities and individuals	66,756	
(22,349)	Provisions for doubtful debts	(21,125)	
<b>123,733</b>	<b>Total</b>	<b>135,033</b>	

### Long-Term:

31 March 2018		31 March 2019	
£000s		£000s	
-	Central government bodies	-	
8,809	Other local authorities	8,827	
-	NHS bodies	-	
-	Public corporations and trading funds	-	
17,022	Other entities and individuals	14,727	
-	Provisions for doubtful debts	-	
<b>25,831</b>	<b>Total</b>	<b>23,554</b>	

### Analysis of provisions for doubtful debts:

2017/18		2018/19	
£000s		£000s	
	<u>Short Term:</u>		
(22,462)	<b>Balance at start of the year</b>	(22,349)	
113	Change in general provision	1,224	
<b>(22,349)</b>	<b>Balance at end of Year</b>	<b>(21,125)</b>	
	<u>Long Term:</u>		
-	<b>Balance at start of the year</b>	-	
-	Change in general provision	-	
-	<b>Balance at end of Year</b>	-	
<b>(22,349)</b>	<b>Total</b>	<b>(21,125)</b>	

# Notes to the Accounts

## Note 19: Cash and Cash Equivalents

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

31 March 2018		31 March 2019	
£000s		£000s	
69,284	Cash held by the Council with bank	73,068	
(16,334)	Bank current account balance / (overdraft)	(23,744)	
71,014	Short-term deposits	66,402	
<b>123,964</b>	<b>Total</b>	<b>115,729</b>	

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

## Note 20: Assets held for Sale

31 March 2018		31 March 2019	
Non-Current	Current	Non-Current	Current
£000s	£000s	£000s	£000s
-	<b>33,897</b>	-	<b>11,606</b>
	<b>Balance outstanding at start of year</b>		
	<i>Assets newly classified as held for sale:</i>		
-	675	-	1,409
	- Property, Plant and Equipment		
-	-	-	-
	- Intangible Assets		
-	-	-	-
	- Other assets / liabilities in disposal groups		
-	(800)	-	-
	Revaluation losses		
-	-	-	-
	Revaluation gains		
-	-	-	-
	Impairment losses		
	<i>Assets declassified as held for sale:</i>		
-	-	-	(18)
	- Property, Plant and Equipment		
-	-	-	-
	- Intangible Assets		
-	-	-	-
	- Other assets / liabilities in disposal groups		
-	(22,166)	-	(45)
	Assets sold		
-	-	-	-
	Transfers from non current to current		
-	-	-	-
	Other movements		
<b>-</b>	<b>11,606</b>	<b>-</b>	<b>12,952</b>
	<b>Balance outstanding at end of year</b>		

## Notes to the Accounts

### Note 21: Creditors

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

#### Short-Term:

31 March 2018		31 March 2019	
£000s		£000s	
(22,241)	Central government bodies	(22,314)	
(24,517)	Other local authorities	(31,049)	
(2,789)	NHS bodies	(2,709)	
(36)	Public corporations and trading funds	(3)	
(106,772)	Other entities and individuals	(134,545)	
<b>(156,354)</b>	<b>Total</b>	<b>(190,621)</b>	

#### Long-Term:

31 March 2018		31 March 2019	
£000s		£000s	
(386)	Central government bodies	(325)	
(603)	Other local authorities	(686)	
-	- NHS bodies	-	
-	- Public corporations and trading funds	-	
(256)	Other entities and individuals	(231)	
<b>(1,244)</b>	<b>Total</b>	<b>(1,241)</b>	

### Note 22: Provisions

The following provisions have been set aside in the 2018/19 accounts to meet future expenditure where liabilities are known or expected.

	Balance at 1 April 2018	Additional provisions made in 2018/19	Amounts used in 2018/19	Unused amounts reversed in 2018/19	Unwinding of discounting in 2018/19	Balance at 31 March 2019
	£000s	£000s	£000s	£000s	£000s	£000s
Insurance Provision	(9,269)	(1,767)	3,439	-	-	(7,597)
Teachers Pension Provision	(157)	(197)	20	-	-	(334)
Sleep-in Provision	(1,338)	-	-	1,338	-	-
NNDR Appeals Provision	(7,533)	(2,108)	1,699	-	-	(7,942)
Municipal Mutual Insurance Provision	(246)	(100)	-	-	-	(346)
Other Liabilities	(200)	-	-	8	-	(192)
<b>Total</b>	<b>(18,743)</b>	<b>(4,172)</b>	<b>5,159</b>	<b>1,346</b>	<b>-</b>	<b>(16,410)</b>



# Notes to the Accounts

## Expected outflow of economic benefits:

	Not later than one year	Later than one year and not later than five years	Later than five years	Total Provisions
	£000s	£000s	£000s	£000s
Insurance Provision	(4,737)	(2,860)	-	<b>(7,597)</b>
Teachers Pension Provision	(334)	-	-	<b>(334)</b>
Sleep-in Provision	-	-	-	-
NNDR Appeals Provision	(7,942)	-	-	<b>(7,942)</b>
Municipal Mutual Insurance Provision	(346)	-	-	<b>(346)</b>
Other Liabilities	(8)	(31)	(153)	<b>(192)</b>
<b>Total</b>	<b>(13,366)</b>	<b>(2,891)</b>	<b>(153)</b>	<b>(16,410)</b>

### Insurance Provisions

This provision is to meet known insurance 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, motor, employers and third party liabilities and storm damage.

### Teachers' Pension Provision

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

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

### Sleep-ins

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

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

### NNDR Appeals

Hertfordshire County Council as precepting authority discloses its share of the provision calculated by billing authorities (districts) for the estimated costs of backdated appeals on National Non Domestic Rating (NNDR) values in the ratings list. These calculations are based on the lists of outstanding appeals with the Valuation Office as at 31/3/19. Billing authorities have used local experience of the % success of appeals, adjusted where relevant for the likely outcome on the largest valuations.

### Municipal Mutual Insurance Provision

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

## Notes to the Accounts

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

### Other Provisions

HCC has been required to make pension payments following a decision by the Pensions Ombudsman. The value of this provision is assessed on an ongoing basis as part of the triennial valuation of pension's liability. The outflow of funds represents pension payments made.

### Note 23: Usable Reserves

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

31 March 2018		31 March 2019	
£000s		£000s	
(188,105)	Earmarked Reserves (see note 8)	(212,908)	
(12,255)	Capital Receipts Reserve	(12,255)	
(111,443)	Capital Grants Unapplied	(139,934)	
(31,497)	General Fund	(31,333)	
<b>(343,300)</b>	<b>Total</b>	<b>(396,430)</b>	

### Capital Receipts Reserve

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

31 March 2018		31 March 2019	
£000s	£000s	£000s	£000s
(500)	<b>Balance at 1 April</b>		<b>(12,255)</b>
(19,874)	Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(1,396)	
18,119	Use of the Capital Receipts Reserve to finance new capital expenditure	1,396	
(10,000)	Loan Repayments	-	
<b>(11,755)</b>			<b>-</b>
<b>(12,255)</b>	<b>Balance at 31 March</b>		<b>(12,255)</b>

## Notes to the Accounts

### Capital Grants Unapplied

Capital Grants Unapplied is the balance of grants and other contributions received but not yet applied to capital expenditure where there is no requirement to repay if conditions attached to the funding are not met. Where grants and contributions do have repayment conditions, the funds are held as a creditor balance in Capital Grants Received in Advance (see note 38). The total balance held in Grants Unapplied and Received in Advance was £193.6m at 31 March 2019.

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>(72,174)</b>	<b>Balance at 1 April</b>		<b>(111,443)</b>
(83,607)		Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(90,432)	
(3)		Capital grants and contributions transferred to Capital Grants unapplied and credited to the Comprehensive Income and Expenditure Statement	(19)	
148		Capital grants and contributions transferred from Capital Grants unapplied and credited/debited to the Comprehensive Income and Expenditure Statement	627	
44,193		Application of grants to capital financing transferred to the Capital Adjustment Account	61,333	
	<b>(39,269)</b>			<b>(28,491)</b>
	<b>(111,442)</b>	<b>Balance at 31 March</b>		<b>(139,934)</b>

### Note 24: Unusable Reserves

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

31 March 2018			31 March 2019	
£000s			£000s	
(666,315)	Revaluation Reserve		(979,364)	
(4,360)	Available for Sale Financial Instruments Reserve		-	
-	Pooled Investment Fund Adjustment Account		31	
-	Financial Instrument Revaluation Reserve		(2,381)	
(1,747,162)	Capital Adjustment Account		(1,821,034)	
3,865	Financial Instruments Adjustment Account		13,543	
1,030,918	Pensions Reserve		1,213,991	
(5,440)	Deferred Capital Receipts Reserve		(5,329)	
(11,985)	Collection Fund Adjustment Account		(4,517)	
13,787	Accumulating Compensated Absences Adjustment Account		7,178	
<b>(1,386,692)</b>	<b>Total</b>		<b>(1,577,882)</b>	

# Notes to the Accounts

## Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and any gains are realised.

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

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>(664,922)</b>	<b>Balance at 1 April</b>		<b>(666,315)</b>
(87,087)		Upward revaluation of assets	(385,681)	
21,469		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	52,050	
	<b>(65,618)</b>	<b>Surplus or Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services</b>		<b>(333,632)</b>
5,760		Difference between fair value depreciation and historical cost depreciation	5,162	
58,466		Accumulated gains on assets sold or scrapped	15,421	
	<b>64,226</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>20,583</b>
	<b><u>(666,315)</u></b>	<b>Balance at 31 March</b>		<b><u>(979,364)</u></b>

## Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains any gains or losses made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Available for Sale Financial Instruments reserve has now been replaced by the Pooled Investment Fund Adjustment Account and the Financial Instrument Revaluation Reserve which are detailed below.

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>(575)</b>	<b>Balance at 1 April</b>		<b>(4,360)</b>
(3,784)		Revaluations of Available for Sale Financial Instruments	-	
-		Transfer out to Pooled Investment Fund Adjustment Account	(15)	
-		Transfer out to Financial Instrument Revaluation Reserve	4,374	
	<b><u>(4,360)</u></b>	<b>Balance at 31 March</b>		<b><u>-</u></b>

# Notes to the Accounts

## Pooled Investment Fund Adjustment Account

The Pooled Investment Fund holds any unrealised Gains or Losses made by the council from changes in market value of financial instruments, which are reversed from the General Fund under statutory provisions and would otherwise result in a charge to the tax payer.

This is a new Unusable Reserve and the balances held in this reserve were previously classified as Available for Sale financial instruments.

Two investments were held in money market funds with a variable net. These funds are revalued to their market value as at 31st March 2019.

31 March 2018		31 March 2019	
£000s	£000s	£000s	£000s
	-		-
	-		15
	-	16	16
	-		16
	-		<b>31</b>

## Financial Instrument Revaluation Reserve

The Financial Instrument Revaluation Reserve contains any unrealised gains or losses arising from changes in the fair value of equity investments where the cash flows are not made up solely of payments of principal and interest, and for which the council has made an irrevocable election to account at fair value through other comprehensive income.

This is a new unusable reserve created for use on adoption of IFRS9 Financial Instruments from 1st April 2018. Balances held in this reserve were previously classified as Available for Sale Financial Instruments.

The council's equity instruments include shareholdings in subsidiaries and associates, along with investments in six Pooled Funds with various underlying asset classes. These instruments were subject to an election to treat as equity instruments at FVOCI, details of which can be found in note 43.

31 March 2018		31 March 2019	
£000s	£000s	£000s	£000s
	-		-
	-		(4,374)
	-	156	156
	-	1,836	1,836
	-		1,993
	-		<b>(2,381)</b>

# Notes to the Accounts

## Capital Adjustment Account

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

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

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>(1,860,367)</b>	<b>Opening Balance at 1 April</b>		<b>(1,747,163)</b>
		<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
68,860		Charges for depreciation and impairment of non-current assets	66,381	
(28,138)		- Revaluation (gains) / losses on Property, Plant and Equipment	(116,348)	
952		Amortisation of intangible assets	812	
30,056		Revenue expenditure funded from capital under statute	51,220	
219,097		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	74,691	
(64,226)		Adjusting amounts written out of the Revaluation Reserve	(20,583)	
	<b>226,601</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>56,173</b>
		<u>Capital financing applied in the year:</u>		
(18,119)		Use of the Capital Receipts Reserve to finance new capital expenditure	(1,396)	
10,000		Transfer of LEP Loan repayment	-	
65		Use of the Capital Reserve to finance new capital expenditure	-	
(47,165)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(50,336)	
(44,193)		Application of grants to capital financing from the Capital Grants Unapplied Account	(61,333)	
(3,161)		Statutory provision for the financing of capital investment charged against the General Fund	(4,232)	
(10,824)		Capital expenditure charged against the General Fund	(12,747)	
	<b>(113,397)</b>			<b>(130,044)</b>
	<b><u>(1,747,163)</u></b>	<b>Balance at 31 March</b>		<b><u>(1,821,034)</u></b>

# Notes to the Accounts

## Financial Instruments Adjustment Account

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

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>4,193</b>	<b>Balance at 1 April</b>		<b>3,865</b>
-		Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	10,078	
(112)		Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(280)	
(8)		Adjustment for Equivalent Interest Rate on finance costs, in accordance with statutory requirements	(8)	
(208)		Soft Loans	(112)	
	<b>(328)</b>	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		<b>9,678</b>
	<b><u>3,865</u></b>	<b>Balance at 31 March</b>		<b><u>13,543</u></b>

## Pension Reserve

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

31 March 2018			31 March 2019	
£000s	£000s		£000s	£000s
	<b>1,066,299</b>	<b>Balance at 1 April</b>		<b>1,030,918</b>
(103,752)		Actuarial (gains) or losses on pensions assets and liabilities benefits debited or credited to the Comprehensive Income and Expenditure Statement	131,033	
139,685		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	128,004	
(71,314)		Employer's pensions contributions and direct payments to pensioners payable in the year	(75,964)	
	<b><u>1,030,918</u></b>	<b>Balance at 31 March</b>		<b><u>1,213,991</u></b>

# Notes to the Accounts

## Deferred Capital Receipts Reserve

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

2017/18		2018/19	
£000s	£000s	£000s	£000s
	<b>(5,545)</b>		<b>(5,440)</b>
	<b>Balance at 1 April</b>		
-	Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-	
105	Transfer to General Fund upon receipt of cash	111	
	<b>105</b>		<b>111</b>
	<b>(5,440)</b>		<b>(5,329)</b>
	<b>Balance at 31 March</b>		

## Collection Fund Adjustment Account

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

### Council Tax

2017/18		2018/19	
£000s		£000s	
<b>(15,903)</b>	<b>Balance at 1 April</b>	<b>(12,649)</b>	
3,254	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	5,214	
<b>(12,649)</b>	<b>Balance at 31 March</b>	<b>(7,435)</b>	

### NNDR

2017/18		2018/19	
£000s		£000s	
<b>1,821</b>	<b>Balance at 1 April</b>	<b>664</b>	
(1,157)	Amount by which business rates (NNDR) income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	2,254	
<b>664</b>	<b>Balance at 31 March</b>	<b>2,918</b>	



# Notes to the Accounts

## Accumulated Absences Account

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

2017/18			2018/19	
£000s	£000s		£000s	£000s
	<b>16,419</b>	<b>Balance at 1 April</b>		<b>13,787</b>
(16,419)		Settlement or cancellation of accrual made at the end of the preceding year	(13,787)	
13,787		Amounts accrued at the end of the current year	7,178	
	<b>(2,632)</b>	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		<b>(6,609)</b>
	<b>13,787</b>	<b>Balance at 31 March</b>		<b>7,178</b>

## Note 25: Cash Flow Statement – Operating Activities

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

2017/18			2018/19	
£000s			£000s	
4,372	Interest received		3,641	
(14,902)	Interest paid		(27,848)	
750	Dividends paid		1,000	

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

2017/18			2018/19	
£000s			£000s	
68,860	Depreciation		66,381	
(28,138)	Impairment and downward valuations		(116,348)	
952	Amortisation		812	
-	(Increase)/decrease in impairment for bad debts		-	
6,460	(Increase)/decrease in creditors		34,528	
12,600	(Increase)/decrease in debtors		(9,013)	
(270)	(Increase)/decrease in inventories		(964)	
68,371	Movement in pension liability		52,040	
219,097	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised		74,691	
(4,329)	Other non-cash items charged to the net surplus or deficit on the provision of services		(8,842)	
<b>343,603</b>			<b>93,284</b>	

## Notes to the Accounts

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

2017/18		2018/19
£000s		£000s
(138)	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and	(89)
(19,874)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,396)
(130,627)	Any other items for which the cash effects are investing or financing cash flows	(140,160)
<b>(150,639)</b>		<b>(141,645)</b>

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

2017/18		2018/19
£000s		£000s
(120,121)	Purchase of property, plant and equipment, investment property and intangible assets	(132,812)
(5,070)	Purchase of short-term and long-term investments	(37,075)
(2,973)	Other payments for investing activities	(826)
19,769	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,285
995	Proceeds from short-term and long-term investments	89
128,825	Other receipts from investing activities	147,593
<b>21,425</b>	<b>Net cash flows from investing activities</b>	<b>(21,746)</b>

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

2017/18		2018/19
£000s		£000s
-	Cash receipts of short- and long-term borrowing	20,000
-	Other receipts from financing activities	-
(1,496)	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	(1,707)
(32,950)	Repayments of short- and long-term borrowing	(5)
(248)	Other payments for financing activities	(133)
<b>(34,694)</b>	<b>Net cash flows from financing activities</b>	<b>18,156</b>

# Notes to the Accounts

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

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

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

2017/18	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000s	£000s	£000s	£000s
Adult Care Services	2,864	6,158	17	9,038
Central Items	19	701	0	720
Children's Services	10,459	26,029	(2,674)	33,815
Community Protection	2,273	7,749	(11)	10,011
Environment and Infrastructure	26,912	1,866	11	28,790
Public Health	0	221	7	227
Resources	9,455	4,844	26	14,325
<b>Net Cost of Services</b>	<b>51,982</b>	<b>47,568</b>	<b>(2,624)</b>	<b>96,925</b>
Other Income and Expenditure	74,530	20,803	1,760	97,093
<b>Surplus or Deficit</b>	<b>126,511</b>	<b>68,371</b>	<b>(864)</b>	<b>194,018</b>

2018/19	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000s	£000s	£000s	£000s
Adult Care Services	2,258	6,718	34	9,010
Central Items	(12)	(12,519)	0	(12,531)
Children's Services	(76,803)	25,671	(6,667)	(57,799)
Community Protection	2,730	6,749	(12)	9,466
Environment and Infrastructure	37,276	1,884	15	39,175
Public Health	10	221	(4)	227
Resources	6,120	4,778	23	10,922
<b>Net Cost of Services</b>	<b>(28,421)</b>	<b>33,502</b>	<b>(6,612)</b>	<b>(1,531)</b>
Other Income and Expenditure	(53,246)	18,538	17,164	(17,545)
<b>Surplus or Deficit</b>	<b>(81,668)</b>	<b>52,040</b>	<b>10,552</b>	<b>(19,076)</b>

Further details about these adjustments are shown below:

- Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for the following items in Other Income & Expenditure:
  - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

## Notes to the Accounts

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

### 28b: Segmental Expenditure and Income

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

2017/18		2018/19
Revenue from external customers		Revenue from external customers
£000s		£000s
(56,524)	Adult Care Services	(60,071)
	- Central Items	(10)
(67,939)	Children's Services	(67,316)
(1,737)	Community Protection	(1,659)
(11,719)	Environment and Infrastructure	(12,057)
(91)	Public Health	(90)
(19,225)	Resources	(17,298)
<b>(157,234)</b>	<b>Total Analysed on a Segmental Basis</b>	<b>(158,501)</b>

# Notes to the Accounts

## Note 29: Expenditure and Income Analysed by Nature

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

	2017/18	2018/19
	£000s	£000s
Employee Benefits Expense	779,558	758,876
Depreciation, amortisation and impairment (capital charges)	41,674	(49,155)
Interest Payments	17,633	27,875
Precepts & Levies	2,112	2,046
Gain/Loss on disposal of non-current assets	199,224	73,295
Other service expenses	971,131	991,691
<b>Total Expenditure</b>	<b>2,011,331</b>	<b>1,804,627</b>
Fees, charges and other service income	(239,775)	(191,672)
Government grants and other contributions	(947,095)	(938,771)
Income from Council Tax and Business Rates	(664,194)	(714,187)
Interest & investment income	(4,256)	(3,713)
<b>Total Income</b>	<b>(1,855,320)</b>	<b>(1,848,342)</b>
<b>Net Expenditure</b>	<b>156,011</b>	<b>(43,715)</b>

## Note 30: Trading Operations

The council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the council or other organisations. The following were active trading operations in 2018/19:

### 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.

2017/18			2018/19	
£000s	£000s		£000s	£000s
(36,097)		Turnover for Hertfordshire Business Services (HBS)	(31,655)	
	35,304	Expenditure for Hertfordshire Business Services (HBS)		30,646
	<b>(793)</b>	<b>(Surplus) / Deficit for Hertfordshire Business Services</b>		<b>(1,009)</b>
(966)		Turnover for Hertfordshire Reprographics	(855)	
	967	Expenditure for Hertfordshire Reprographics		907
	<b>1</b>	<b>(Surplus) / Deficit for Hertfordshire Reprographics</b>		<b>52</b>
	<b>(792)</b>	<b>Net Surplus on trading operations</b>		<b>(957)</b>

# Notes to the Accounts

## Note 31: Agency Services

### Services on behalf of CCGs

The Joint Commissioning Partnership Board was established in 2002 by the Primary Care Trusts (PCTs) (now Clinical Commissioning Groups) 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 Pooled Budget arrangements. In line with reporting guidance for pooled budgets, Hertfordshire County Council only account for their contributions in respect of these arrangements (with pooled budget details disclosed as note 32). However some services are provided through the Partnership arrangements (and services commissioned by the Integrated Health & Care Commissioning Team), but funding is not pooled. The funding is not pooled as the 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 Health.

For non-pooled services that are provided on behalf of the council, the expenditure is reflected against the relevant service reporting line.

For non-pooled services that are provided on behalf of the Clinical Commissioning Groups, the total effect is net nil as the services are fully funded by the Clinical Commissioning Group. As this expenditure and income relate to health (and not social care) services, it would not be appropriate to disclose them against the Adult Care Services line.

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

2017/18 £000s	2018/19 £000s
11,677	8,983
Expenditure incurred on behalf of CCGs / NHS England	
(11,677)	(8,983)
Expenditure recovered from CCGs / NHS England	
<b>- Net expenditure on service for NHS Hertfordshire</b>	<b>-</b>

### Services on behalf of HHIA

The Hertfordshire Home Improvement Agency (the HHIA) was established in October 2017 and is a shared service between Hertfordshire County Council (HCC), East Herts District Council, North Herts District Council, Broxbourne Borough Council, Watford Borough Council and Stevenage Borough Council (from April 2018), to provide home and housing adaptations to Hertfordshire residents with Disabled Facilities Grant (DFG) allocations. Hertfordshire County Council provides the shared service through the HHIA in accordance with the Partnership Agreement. 2018/19 is the first full year of operation.

Further details are shown in the table below:

2017/18 £000s	2018/19 £000s
244	487
Expenditure incurred on behalf of HHIA	
(102)	(205)
Expenditure recovered in accordance with the Partnership Agreement	
(87)	(259)
Income received in accordance with the Partnership Agreement	
(50)	(23)
Better Care Fund - funding towards HHIA	
<b>4 Net expenditure on service for HHIA</b>	<b>-</b>

# Notes to the Accounts

## Note 32: Pooled Budgets

The Hertfordshire pooled budgets are governed by an overarching S75 Framework Partnership Agreement with separate schedules detailing the individual elements making up the pooled budgets. These are:

- Schedule 1.1 East & North Herts and Cambridge & Peterborough Better Care Fund.
- Schedule 1.2 Herts Valleys Better Care Fund.
- Schedule 1.3 Mental Health & Learning Disability Pooled Budget.
- Schedule 1.4 Hertfordshire Equipment Service.

The overarching S75 agreement between Hertfordshire County Council, the Hertfordshire Clinical Commissioning Group's and Cambridge & Peterborough Clinical Commissioning Group was updated and signed in November 2015 to include the Better Care Fund (BCF). During the 2016/17 financial year the S75 was updated via a BCF Variation Partnership Agreement, however as the majority of the document was unchanged the November 2015 document is still current. A S75 Deed of Variation was finalised at the end of 2018/19.

Year-end variances for the Better Care Fund are detailed in the S75 Risk Sharing Arrangements. For the Mental Health & Learning Disability and Herts Equipment Service pooled budgets the variances are shared between partners in proportion to their contribution.

In 2018/19 funding was provided by the Ministry of Housing, Communities and Local Government (MHCLG) to Hertfordshire County Council for the Improved Better Care Fund (IBCF). This funding is part of the BCF pooled budget but is separately identified in the table.

The Better Care Fund in Hertfordshire is significantly larger than the specifically pooled amounts identified in the table and is included within the Quarter 4 Better Care Fund Template submitted to NHS England.

Summary information for the pooled budgets that the council contributed to is shown below:

	2017/18						
	Westgate – East and North Herts	Intermediate care and Enablement beds in east and North Hertfordshire	Better Care Fund East & North Herts	Better Care Fund Cambridgeshire & Peterborough	Better Care Fund Herts Valleys	Mental health, learning disability (was JCPB)	Integrated Community Equipment Service
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Funding provided to the pooled budget</b>							
The Council	(2,325)	(191)	(45)	-	(57)	(186,103)	(2,877)
BCF Transfer between Pools	-	(776)	776	-	-	-	-
East & North Herts CCG	(715)	(2,219)	(13,980)	-	-	(73,900)	(1,395)
Herts Valleys CCG	-	-	-	-	(13,757)	(74,159)	(1,414)
Cambs & Peter CCG	-	-	-	(322)	-	(2,420)	(58)
<b>Funding provided to the pooled budget</b>	<b>(3,040)</b>	<b>(3,185)</b>	<b>(13,249)</b>	<b>(322)</b>	<b>(13,814)</b>	<b>(336,582)</b>	<b>(5,745)</b>
<b>Expenditure met from the pooled budget</b>	<b>2,996</b>	<b>1,927</b>	<b>12,917</b>	<b>322</b>	<b>12,929</b>	<b>336,528</b>	<b>5,074</b>
<b>Net (surplus) / deficit arising on the pooled budget during the year</b>	<b>(44)</b>	<b>(1,258)</b>	<b>(331)</b>	<b>-</b>	<b>(885)</b>	<b>(55)</b>	<b>(671)</b>

## Notes to the Accounts

	2018/19								
	Westgate – East and North Herts	Intermediate care and Enablement beds in east and North Hertfordshire	Better Care Fund East & North Herts	Better Care Fund Cambridgeshire & Peterborough	Improved Better Care Fund Hertfordshire County Council	Better Care Fund Herts Valleys	Improved Better Care Fund Hertfordshire County Council	Mental health, learning disability (was JCPB)	Integrated Community Equipment Service
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Funding provided to the pooled budget</b>									
The Council	(2,375)	(183)	(53)	-	(8,113)	(63)	(8,270)	(188,811)	(2,878)
BCF Transfer between Pools	-	(826)	826	-	-	-	-	-	-
East & North Herts CCG	(735)	(1,231)	(14,166)	-	-	-	-	(78,033)	(1,395)
Herts Valleys CCG	-	-	-	-	-	(10,433)	-	(77,830)	(1,414)
Cambs & Peter CCG	-	-	-	(328)	-	-	-	(2,583)	(53)
<b>Funding provided to the pooled budget</b>	<b>(3,109)</b>	<b>(2,240)</b>	<b>(13,393)</b>	<b>(328)</b>	<b>(8,113)</b>	<b>(10,496)</b>	<b>(8,270)</b>	<b>(347,257)</b>	<b>(5,740)</b>
<b>Expenditure met from the pooled budget</b>	<b>3,057</b>	<b>1,981</b>	<b>11,799</b>	<b>328</b>	<b>5,587</b>	<b>9,767</b>	<b>7,332</b>	<b>346,760</b>	<b>5,566</b>
<b>Net (surplus) / deficit arising on the pooled budget during the year</b>	<b>(52)</b>	<b>(259)</b>	<b>(1,594)</b>	<b>-</b>	<b>(2,526)</b>	<b>(729)</b>	<b>(938)</b>	<b>(497)</b>	<b>(174)</b>

### Note 33: Members' Allowances

The council paid the following amounts in respect of Members' Allowances in 2018/19. 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.

2017/18			2018/19		
Paid to individual	Other Costs	Total	Paid to individual	Other Costs	Total
£000s	£000s	£000s	£000s	£000s	£000s
<b>Elected Members</b>					
1,179	88	1,267	1,219	78	1,297
47	-	47	55	-	55
15	-	15	13	-	13
<b>1,242</b>	<b>88</b>	<b>1,330</b>	<b>1,287</b>	<b>78</b>	<b>1,365</b>
<b>Others</b>					
3	-	3	4	-	4
-	-	-	-	-	-
<b>3</b>	<b>-</b>	<b>3</b>	<b>4</b>	<b>-</b>	<b>4</b>
<b>1,245</b>	<b>88</b>	<b>1,333</b>	<b>1,291</b>	<b>78</b>	<b>1,369</b>
<b>Total</b>					



## Notes to the Accounts

### Note 34: Termination Benefits and Exit Packages

The authority terminated the contracts of 162 employees in 2018/19, who were either made redundant as part of the authority's rationalisation of these services or had departures agreed with their line management. This incurred liabilities of £1.150 million. The table below details the number of exit packages and total cost per band. No packages in 2018/19 exceeded £150,000. In accordance with the requirements of the Code of Practice, the costs disclosed are the additional costs of early termination, and exclude any amounts paid to employees under the standard terms of membership of their pension schemes.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 – £20,000	74	39	122	109	196	148	1,213,921	795,781
£20,001 – £40,000	9	2	26	12	35	14	939,272	354,078
£40,001 - £60,000	1	-	3	-	4	-	207,951	-
£60,001 - £80,000	-	-	1	-	1	-	69,761	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	1	-	-	-	1	-	107,499	-
<b>Total</b>	<b>85</b>	<b>41</b>	<b>152</b>	<b>121</b>	<b>237</b>	<b>162</b>	<b>2,538,404</b>	<b>1,149,859</b>

# Notes to the Accounts

## Note 35: Officers' Remuneration

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

2017/18		2018/19	
HCC Employees	Remuneration Band (£'s)	HCC Employees	
218	50,000 - 54,999	242	
126	55,000 - 59,999	138	
116	60,000 - 64,999	100	
72	65,000 - 69,999	82	
45	70,000 - 74,999	43	
18	75,000 - 79,999	27	
15	80,000 - 84,999	11	
8	85,000 - 89,999	10	
6	90,000 - 94,999	7	
10	95,000 - 99,999	8	
6	100,000 - 104,999	1	
3	105,000 - 109,999	5	
2	110,000 - 114,999	2	
-	115,000 - 119,999	-	
1	120,000 - 124,999	-	
1	125,000 - 129,999	2	
-	130,000 - 134,999	1	
1	135,000 - 139,999	1	
2	140,000 - 144,999	-	
-	145,000 - 149,999	1	
-	150,000 - 154,999	1	
-	155,000 - 159,999	-	
-	160,000 - 164,999	-	
-	165,000 - 169,999	-	
-	170,000 - 174,999	-	
-	175,000 - 179,999	-	
-	180,000 - 184,999	-	
1	185,000 - 189,999	-	
-	190,000 - 194,999	1	
<b>651</b>		<b>683</b>	

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

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

## Notes to the Accounts

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

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

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

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

Position	Notes	Year	Salary	Benefits in Kind (*)	Compensation Payments	Total Remuneration excluding pension contributions	Pension Contributions	Remuneration including Pension Contributions
			£	£	£	£	£	£
Chief Executive - J Wood		2018/19	192,587	722	-	193,309	39,673	232,982
		2017/18	186,850	546	-	187,396	38,491	225,887
Chief Executive - O Mapley		2018/19	45,000	-	-	45,000	9,270	54,270
		2017/18	N/A	N/A	N/A	N/A	N/A	N/A

(\*) Benefits in Kind covers Car Lease payments

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

## Notes to the Accounts

Position	Notes	Year	Salary	Benefits in Kind (*)	Compensation Payments	Total Remuneration excluding pension contributions	Pension Contributions	Remuneration including Pension Contributions
			£	£	£	£	£	£
Director Adult Care Services		2018/19	139,077	-	-	139,077	28,650	167,727
		2017/18	136,350	-	-	136,350	28,088	164,438
Operations Director (Older People), Deputy Director - see note 2	from 01/12/17	2018/19	107,100	-	-	107,100	22,063	129,163
		2017/18	35,000	-	-	35,000	7,210	42,210
Director Community Protection (CFO) - see note 3		2018/19	127,303	5,047	-	132,350	17,327	149,677
		2017/18	121,106	6,120	-	127,227	15,102	142,329
Deputy Chief Fire Officer - see note 3		2018/19	98,900	3,413	-	102,313	13,631	115,944
		2017/18	95,000	4,573	-	99,573	12,854	112,427
Deputy Director Community Protection - see note 3		2018/19	96,900	-	-	96,900	19,961	116,861
		2017/18	95,000	-	-	95,000	19,570	114,570
Chief Legal Officer		2018/19	109,875	-	-	109,875	22,634	132,509
		2017/18	110,721	-	-	110,721	22,808	133,529
Director of Children's Services		2018/19	147,319	-	-	147,319	30,347	177,666
		2017/18	144,430	-	-	144,430	29,753	174,183
Director Family Safeguarding - see note 4	to 01/10/18	2018/19	48,127	-	-	48,127	9,914	58,041
		2017/18	97,465	-	-	97,465	20,078	117,543
Operations Director (Children & Families), Deputy Director - see note 4	from 28/08/18	2018/19	59,409	-	-	59,409	12,238	71,647
		2017/18	N/A	N/A	N/A	N/A	N/A	N/A
Director, Environment and Infrastructure	from 03/09/18	2018/19	72,222	-	-	72,222	14,878	87,100
		2017/18	N/A	N/A	N/A	N/A	N/A	N/A
Deputy Director, Environment see note 5	to 02/09/18	2018/19	46,309	-	-	46,309	9,540	55,849
		2017/18	108,962	-	-	108,962	22,446	131,408
Director Public Health		2018/19	112,786	-	-	112,786	23,234	136,020
		2017/18	110,575	-	-	110,575	22,778	133,353
Deputy Director Public Health		2018/19	130,067	41	-	130,108	17,122	147,230
		2017/18	123,376	23	-	123,399	16,174	139,573
Director Resources (S151 officer) - see note 6	from 01/01/19	2018/19	30,882	-	-	30,882	6,362	37,244
		2017/18	N/A	N/A	N/A	N/A	N/A	N/A
Director Resources (S151 officer) - see note 1	to 31/12/18	2018/19	109,253	-	-	109,253	22,506	131,759
		2017/18	142,814	-	-	142,814	29,420	172,234

(\*) Benefits in Kind covers Car Lease payments

## Notes to the Accounts

**Note 1:** John Wood, Chief Executive retired on 31/03/19. There was a handover period with Owen Mapley who is the newly appointed Chief Executive (effective 01/01/19).

**Note 2:** To bring Adult Care Services into line with all other council departments it was agreed that the Operations Director (Older People) would act as Deputy Director of Adult Care Services. This role provides a deputy for the statutory DASS role.

**Note 3:** As a result of the secondment of the Director Community Protection a number of Community Protection (Herts Fire & Rescue) roles were re-organised to cover. Following the retirement of the Director Community Protection these roles have now become permanent.

**Note 4:** The post holder for Director Family Safeguarding left the authority on 28th August 2018. Following a review of the management structure this post no longer exists as it was and the post holder for Operations Director (Children & Families) has taken over the role of Deputy Director.

**Note 5:** The post holder for Deputy Director, Environment was seconded to Buckinghamshire County Council from 03/09/18. They have subsequently left HCC (effective from 31/01/19) and the post is currently vacant.

**Note 6:** The Assistant Director Finance assumed acting Director Resources (S151 Officer) responsibility from 1 January 2019.

# Notes to the Accounts

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

### Teacher's Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA) in the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 16.48% for 2018/19.

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

Council contributions to the Teachers' Pensions Agency in respect of teachers' retirement benefits have amounted to £36.528m for 2018/19 (£37.389m in 2017/18).

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. During 2018/19 the cost of these unfunded discretionary awards amounted to £4.125m (£4.165m in 2017/18).

### Public Health

Public Health employees who were compulsorily transferred from the PCTs to the council and who had access to the NHS Pension Scheme on 31 March 2013 retained access to that Scheme on transfer at 1<sup>st</sup> of April 2013. The Scheme provides these employees with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 14.38% for 2018/19.

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

Council contributions to the NHS Pension Fund in respect of these employees' retirement benefits have amounted to £0.217m for 2018/19 (£0.205m in 2017/18).

# Notes to the Accounts

## Note 37: Defined Benefit Pension Schemes

### Participation in Defined Benefit Pension Schemes:

The council offers retirement benefits as part of the employment terms and conditions of its officers and other employees. Although these benefits will not actually be payable until employees retire, the council has a commitment to disclose the payments which have been accumulated as at 31 March 2019 and which will become payable upon retirement.

The council participates in two defined benefit pension schemes:

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

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

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

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

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

The most recent actuarial valuation of the Local Government Pension scheme was carried out as at 31 March 2016. This valuation identified that the council's share of assets were sufficient to meet 96% of its liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The certified employer contribution rate for the period 1 April 2017 - 31 March 2020 remained unchanged at 20.6% of pensionable payroll.

### Transactions relating to retirement benefits:

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

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

# Notes to the Accounts

2017/18		2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme	Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s	£000s	£000s
<u>Comprehensive Income and Expenditure Statement</u>			
<i>Cost of Service:</i>			
100,268	10,500	102,995	9,500
701	-	237	-
-	-	(12,756)	-
<i>Financing and Investment Income and Expenditure:</i>			
15,716	12,500	14,628	13,400
<b>116,685</b>	<b>23,000</b>	<b>105,104</b>	<b>22,900</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>			
Remeasurement of the net defined benefit liability comprising:			
(58,512)	-	(101,675)	-
-	(5,100)	-	(35,100)
(48,675)	(8,800)	213,876	34,200
86	17,250	1,718	18,014
<b>(107,101)</b>	<b>3,350</b>	<b>113,919</b>	<b>17,114</b>
<b>9,584</b>	<b>26,350</b>	<b>219,023</b>	<b>40,014</b>

2017/18		2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme	Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s	£000s	£000s
<i>Movement in reserves statement:</i>			
(116,685)	(23,000)	(105,104)	(22,900)
-	-	-	-
<i>Actual amount charged against Council Tax for pensions in the year</i>			
56,061	3,327	58,522	3,342
-	7,923	-	10,072
4,004	-	4,028	-
<b>(56,620)</b>	<b>(11,750)</b>	<b>(42,554)</b>	<b>(9,486)</b>



## Notes to the Accounts

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2019 is a gain of £81.386m.

The following amounts are carried in the balance sheet:

2017/18			2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s		£000s	£000s
2,635,595	497,100	Present Value of the defined benefit obligation	2,944,168	523,700
(2,101,777)	-	Fair Value of scheme assets	(2,253,877)	-
<b>533,818</b>	<b>497,100</b>	<b>Net Liability arising from the defined benefit obligation</b>	<b>690,291</b>	<b>523,700</b>

### Assets and liabilities in relation to retirement benefits

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

2017/18			2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s		£000s	£000s
<b>2,565,719</b>	<b>482,000</b>	<b>Opening balance at 1 April</b>	<b>2,635,595</b>	<b>497,100</b>
104,914	10,500	Current service costs	107,098	9,500
67,329	12,500	Interest costs	71,076	13,400
16,421	2,200	Contributions by scheme participants	17,150	2,200
		<i>Remeasurement gain/loss</i>		
-	(5,100)	• Actuarial (gains) and losses arising from changes in demographic assumptions	-	(35,100)
(48,675)	(8,800)	• Actuarial (gains) and losses arising from changes in financial assumptions	213,876	34,200
(410)	16,700	• Other experience	1,803	17,200
(66,400)	(12,900)	Benefits paid	(69,974)	(14,800)
701	-	Past service costs	237	-
(4,004)	-	Entity combinations	(4,028)	-
-	-	Settlements	(28,665)	-
<b>2,635,595</b>	<b>497,100</b>	<b>Closing balance at 31 March</b>	<b>2,944,168</b>	<b>523,700</b>

The future liabilities valued by the actuary do not include any provision for the outcome of the McCloud/Sargeant transitional protection case. Due to the uncertainty of the appeal the impact cannot be known until the legal decision is clear.

## Notes to the Accounts

### Reconciliation of fair value of the scheme assets

2017/18			2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme		Local Government Pension Scheme	Fire-Fighters Pension Scheme
£000s	£000s		£000s	£000s
<b>1,981,420</b>	-	<b>Opening balance at 1 April</b>	<b>2,101,777</b>	-
		<i>Remeasurement gain/loss</i>		
51,613	-	• Net interest income on Scheme Assets	56,448	-
24,056	-	• Expected return on assets (excluding the amount included in the net interest expense)	101,675	-
60,211	10,700	Employer contributions	62,710	12,600
16,421	2,200	Contributions by scheme participants	17,150	2,200
4,004	-	Contributions in respect of unfunded benefits	4,028	-
(66,400)	-	Benefits paid	(69,974)	-
(4,004)	-	Unfunded benefits paid	(4,028)	-
-	(12,900)	Pension and lump sum expenditure	-	(14,800)
-	-	Settlements	(15,909)	-
<b>2,067,321</b>	-	<b>Closing balance at 31 March</b>	<b>2,253,877</b>	-

The above asset values as at 31 March 2019 are at bid value as required under IAS 19.

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

# Notes to the Accounts

2017/18			2018/19		
Local Government Pension Scheme		Fire-Fighters Pension Scheme	Local Government Pension Scheme		Fire-Fighters Pension Scheme
Quoted prices in active markets	Quoted prices not in active markets		Quoted prices in active markets	Quoted prices not in active markets	
£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Equity</u></b>					
142,877	-	-	100,252	-	-
133,768	-	-	87,398	-	-
27,334	-	-	23,265	-	-
216,811	-	-	92,934	-	-
24,058	-	-	18,333	-	-
94,833	-	-	70,514	-	-
6,793	-	-	6,022	-	-
<b><u>Debt Securities</u></b>					
-	-	-	-	-	-
-	-	-	-	-	-
-	841	-	-	1,034	-
-	78,853	-	-	105,679	-
<b><u>Private Equity</u></b>					
<b><u>Real Estate</u></b>					
-	68,245	-	-	79,849	-
-	68,343	-	-	85,484	-
<b><u>Investment Funds and Unit Trusts</u></b>					
480,012	-	-	568,711	-	-
529,549	-	-	784,146	-	-
-	-	-	-	-	-
-	5,478	-	-	21,848	-
14,114	99,286	-	19,046	119,118	-
<b><u>Derivatives</u></b>					
-	2,976	-	-	(2,690)	-
73,150	-	-	72,935	-	-
<b>1,743,299</b>	<b>324,022</b>	-	<b>1,843,555</b>	<b>410,322</b>	-
<b><u>Cash &amp; Cash Equivalents</u></b>					
<b>Total</b>					

## Asset and Liability Matching Strategy

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

- **Diversification** – the Fund has adopted a strategy that is diversified by asset class, region, sector and investment manager.
- **De-risking plan** – the Fund has now moved to a lower risk strategy that comprises 65% in “growth” assets and 35% in “defensive” assets. The composition of the “defensive” assets will change over the coming year as the chosen closed ended funds drawdown capital. The allocation between growth and defensive assets as at the accounting year end date was approximately 66% growth / 34% defensive.
- **Defensive asset portfolio** – the Fund has appointed a number of specialist mandates to manage the defensive assets (UK corporate bonds, Index Linked Gilts, Infrastructure Debt, PRS Property and HLV Property). The Index Linked Gilt mandate will seek to offer some protection from changes in inflation and interest rates.
- **Monitoring** – the Fund's investment arrangements are regularly monitored. The council receives independent reporting from the custodian and the Fund's Investment Consultant and the Pensions Committee meet the investment managers on an ongoing basis.

# Notes to the Accounts

## Impact on Future Cash flows

The liabilities show the underlying commitments that the council has in the long-term to pay retirement benefits. The total liability as at 31 March 2019 of £1.214bn has a substantial impact on the net worth of the council as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean:

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

The total contributions estimated to be made to the Local Government Pension Scheme by the council in the year to 31 March 2020 is £62.5m. Expected contributions for the Firefighters Pension Scheme in the year to 31 March 2020 have not been estimated as being an unfunded scheme, the employer contribution depends on the benefits that will be paid in the year, the employee contributions and transferred in amounts received.

The maturity profile is as follows:

	Local Government Pension Scheme		Fire Fighters Pension Scheme	
	Liability Split	Weighted Average Duration	Liability Split	Weighted Average Duration
Active Members	46.10%	22.20	43.20%	25.10
Deferred Members	23.30%	21.80	4.60%	26.00
Pensioner Members	30.60%	11.20	52.20%	11.80

## 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 2017.

The principal assumptions used by the actuary have been:

2017/18			2018/19	
Local Government Pension Scheme	Fire-Fighters Pension Scheme New Scheme		Local Government Pension Scheme	Combined Fire-Fighters Pension Scheme
<u>Mortality assumptions:</u>				
Longevity at 65 for current pensioners:				
22.5 years	28.6 years	o Men	22.5 years	27.3 years
24.9 years	31.0 years	o Women	24.9 years	29.4 years
Longevity at 65 for future pensioners:				
24.1 years	29.7 years	o Men	24.1 years	28.4 years
26.7 years	32.2 years	o Women	26.7 years	30.6 years
2.50%	3.40%	Rate of increase in salaries	2.60%	3.50%
2.40%	2.40%	Rate of increase in pensions	2.50%	2.50%
2.70%	2.70%	Rate for discounting scheme liabilities	2.40%	2.40%
75%	90%	Take-up of option to convert annual pension into retirement lump sum *	75%	90%

## Notes to the Accounts

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

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

### Sensitivity Analysis

Change in Assumptions at 31st March 2019	Local Government Pension Scheme		Fire Fighters Pension Scheme	
	Approximate % increase to Employer Liability	Approximate monetary amount £000s	Approximate % increase to Employer Liability	Approximate monetary amount £000s
0.5% increase in the Salary Increase Rate	1.00%	29,638	1.00%	4,840
0.5% increase in the Pension Increase Rate	9.00%	261,284	8.00%	41,484
0.5% decrease in Real Discount Rate	10.00%	294,767	10.00%	50,598

### Note 38: Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

#### Credited to Taxation and Non Specific Grant Income

2017/18		2018/19	
£000s		£000s	
(44,535)	Revenue Support Grant	(22,599)	
(4,153)	Adult Social Care (New Burdens)	(2,584)	
(3,221)	Education Services Grant	-	
(7,849)	Transition Grant	-	
(5,642)	New Homes Bonus	(3,474)	
(4,253)	Business Rates Retention Tax Loss Reimbursement	(5,661)	
(1,440)	Send Reform	-	
(2,070)	Independent Living Fund	(2,005)	
(2,873)	Other grants less than £1m each	(1,695)	
(7,923)	Fire Pension Top-up Grant	(10,072)	
-	School Improvement Brokering & Monitoring Grant	(655)	
-	Levy Account Surplus	(1,873)	
(110,948)	Capital Grants and Contributions	(125,318)	
<b>(194,907)</b>	<b>Total</b>	<b>(175,936)</b>	

# Notes to the Accounts

## Credited to Services

2017/18		2018/19
£000s		£000s
	<b><u>Education Funding Agency</u></b>	
(14,617)	Grant for Sixth Formers	(13,734)
(584,632)	Dedicated Schools Grant	(585,424)
(24,294)	Pupil Premium	(23,331)
(6,150)	Building Schools for the Future	(6,150)
(5,299)	PE and Sports Grant	(6,450)
(13,677)	Universal Infant Free School Meals	(12,517)
-	Teachers Pay Grant	(2,268)
(194)	Other grants less than £1m each	(167)
	<b><u>Department for Education</u></b>	
(247)	Youth Innovation Fund	(251)
(1,199)	Others grants less than £1m each	(1,384)
	<b><u>Department of Health</u></b>	
(48,813)	Public Health	(47,558)
-	Others grants less than £1m each	(353)
	<b><u>Youth Justice Board</u></b>	
(791)	Other grants less than £1m each	(848)
	<b><u>Department for Communities and Local Government</u></b>	
(1,871)	PFI Credits	(1,871)
(13,071)	Improved Better Care Fund (iBCF)	(20,518)
(2,110)	Troubled Families Grant	(2,072)
(584)	Others grants less than £1m each	(1,544)
	<b><u>Home Office</u></b>	
(2,504)	Unaccompanied Asylum Seeking Children	(3,116)
(991)	Other grants less than £1m each	(615)
	<b><u>Department for Transport</u></b>	
(1,212)	Bus Services Operators Grant (BSOG)	(1,212)
(165)	Other grants less than £1m each	(106)
	<b><u>Highways England</u></b>	
(2,000)	A5 Detrunking	-
	<b><u>Skills Funding Agency</u></b>	
(1,858)	Community Learning	(2,224)
(766)	Other grants less than £1m each	(581)
	<b><u>Various Other bodies</u></b>	
(1,642)	Music Services Grant	(1,639)
-	Big Lottery Fund	(1,201)
(23,501)	Other grants less than £1m each & contributions	(25,701)
<b>(752,188)</b>		<b>(762,835)</b>

# Notes to the Accounts

## Capital Grants Received in Advance

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

2017/18		2018/19
£000s		£000s
<b>(48,901)</b>	<b>Balance at start of year</b>	<b>(47,064)</b>
(45,284)	New grants received in advance	(56,365)
(118)	Grants reclassified in year to Capital Grants Received in Advance	(625)
74	Grants reclassified in year from Capital Grants Received in Advance	19
47,165	Application of grants used in year	50,336
<b><u>(47,064)</u></b>	<b>Balance at end of year</b>	<b><u>(53,698)</u></b>

These balances, together with Capital Grants Unapplied (see Note 23), give a total £193.6m at 31 March 2019 available for funding capital spending.

## Note 39: Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG received for 2018/19 are as follows:

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget	Total
	£000s	£000s	£000s
Final DSG for 2018/19 before deductions for academy recoupment and direct funding of high needs places by the EFA			<b>941,029</b>
Deductions for academy recoupment and direct funding of high needs places by the EFA for 2018/19			(355,605)
Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2018/19			<b>585,424</b>
Plus: Brought forward from 2017/18			23,334
<i>Less: Carry-forward to 2019/20 agreed in advance</i>			(19,784)
<b>Agreed initial budgeted distribution in 2018/19</b>	<b>97,405</b>	<b>491,570</b>	<b>588,974</b>
In year adjustments	-	-	-
<b>Final budget distribution for 2018/19</b>	<b>97,405</b>	<b>491,570</b>	<b>588,974</b>
<i>Less: Actual central expenditure</i>	(97,422)	-	(97,422)
<i>Less: Actual ISB deployed to schools</i>	-	(489,670)	(489,670)
<i>Plus: Local authority contribution for 2017/18</i>	-	-	-
2018/19 in year balance carried forward to 2019/20	<b>(17)</b>	<b>1,899</b>	<b>1,882</b>
Carry forward to 2019/20 agreed in advance	-	-	19,784
<b>Total carry forward to 2019/20</b>			<b><u>21,666</u></b>

Comparatives for 2017/18 of the deployment of DSG received are as follows:

## Notes to the Accounts

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget	Total
	£000s	£000s	£000s
Final DSG for 2017/18 before deductions for academy recoupment and direct funding of high needs places by the EFA			<b>908,740</b>
Deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18			(324,108)
Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18			<b>584,632</b>
Plus: Brought forward from 2016/17			21,289
Less: Carry-forward to 2018/19 agreed in advance			(11,954)
<b>Agreed initial budgeted distribution in 2017/18</b>	<b>93,633</b>	<b>500,334</b>	<b>593,967</b>
In year adjustments	-	-	-
<b>Final budget distribution for 2017/18</b>	<b>93,633</b>	<b>500,334</b>	<b>593,967</b>
Less: Actual central expenditure	(86,976)	-	(86,976)
Less: Actual ISB deployed to schools	-	(495,611)	(495,611)
Plus: Local authority contribution for 2017/18	-	-	-
2017/18 in year balance carried forward to 2018/19	<b>6,657</b>	<b>4,723</b>	<b>11,380</b>
Carry forward to 2018/19 agreed in advance	-	-	11,954
<b>Total carry forward to 2018/19</b>			<b>23,334</b>

### Note 40: External Audit Costs

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

2017/18 £000s		2018/19 £000s
121	Fees payable with regard to external audit services carried out by the appointed auditor for the year	109
-	Fees payable for the certification of grant claims and returns for the year	-
13	Fees payable in respect of other services provided during the year	14
<b>134</b>	<b>Total</b>	<b>123</b>

Fees payable in respect of other services provided during the year relate to the audit of the Teachers' Pension return.

### Note 41: Contingent Assets

There were no contingent assets as at 31 March 2019.

### Note 42: Contingent Liabilities

At 31 March 2019 the council was aware of the following potential liabilities it may face in the future. These items have not been reflected in the accounts as there is no certainty that an actual liability may arise, or because there is uncertainty as to the amount of liability or when it will arise.

The Contingent liabilities identified relate to:



# Notes to the Accounts

## Municipal Mutual Insurance

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

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

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

The 25% levy applies to all current and future claims relating to the period that MMI were the council's insurers. The provision for currently open claims is £345,881.

There is continued uncertainty around the scale of future payments and further levy charges and in recognition of a contingent liability a reserve of £357,021 is maintained.

## Local Authority Mortgage Scheme (LAMS)

Under this scheme, the council entered into arrangements that provided a guarantee to meet first losses on specified mortgages within the local authority area. £10m was deposited with Lloyds Bank and Leeds Building Society during 2012/13, and these institutions will make mortgage advances within this amount. The schemes in which the council participated were closed by 31 March 2016, and the £10m deposited was repaid by 31 March 2018.

Under the terms of the scheme the council's liability to meet losses on mortgages issued by the lenders expires five years after each loan was completed, provided that there are no arrears on repayments. As at 31 March 2019 there had been no arrears, and two loans remain within the five year initial period. The value of the financial guarantee, based on estimated mortgage default rates, was shown as a charge in the Comprehensive Income and Expenditure Account. The residual amount as at 31 March 2019 is immaterial and has been written out of the accounts. However, as two loans continue to be indemnified by the council, there remains a contingent liability that the council will have to meet the cost of any defaults which may occur.

The council received an interest premium on the LAMS deposits for the risk associated with the Scheme, which was added to the commercial deposit rate. This premium was set aside in an earmarked reserve to contribute towards funding any future potential liabilities. The maximum remaining liability is £76k.

## Hertfordshire Pension Fund

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

## Sleep-Ins backdated for 6 Years

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

Initially it was decided the council would ensure that across a payment period of 1 week the employee was paid on average above NLW, and all Supported Living packages with a Sleep-In were uplifted and backdated to 01/04/2017. These packages were paid at the uplifted average rate for the rest of 2017/18.

## Notes to the Accounts

However, Commercial Law advised that there may be a risk if Providers decided to legally challenge the council's position. Therefore an Officer Key Decision was made stating that In-County Providers would be paid at the NLW rate plus National Insurance and Pension costs for all sleep-ins from 26/07/2017 - the date from which penalties for underpayment were payable. Supported Living Providers were to keep the average rate uplifts from 01/04/2017 to 25/07/2017, and Out of County Supported Living Providers would keep the average rate uplifts for the full financial year. The council identified sleep-in support within Residential, Supported Living and Direct Payments packages. Sleep-ins were also identified within In-House Provision, however these are being managed within the service to ensure the average hourly rate for employees is above the NLW. For Direct Payments it was decided to uplift from 01/04/2018.

On 13/07/2018 the Court of Appeals overturned the Employment Appeals Tribunal; this means that currently NLW is not required to be paid for sleep-in support. On 12/02/2019 the Supreme Court agreed to an appeal submitted by UNISON.

There is a possibility that Providers could request 6 years of backdated payments from the council as they may be liable to pay these costs to their employees if the Supreme Court overturn the Court of Appeals. Providers would then need to pay HMRC taxes relating to these back payments; the council assumes that HMRC would try to collect the 6 years prior to the original Employment Appeals Tribunal ruling.

The estimated cost of backdating the current known Sleep-In packages (for Residential, Supported Living and Direct Payments) at the National Living Wage for the past 6 years is £12.4m.

### Metropolitan Rail Extension (Croxley Rail Link)

Partners have halted work on this project and future payments by funding partners have therefore been suspended. The council has also postponed its capital investment against this scheme pending clarification on future plans. There could be potential liabilities for the council relating to the scheme, which at 31 March 2019 were uncertain and not quantified.

### Pensions (McCloud Judgement)

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements. Court of Appeal judgements were made in cases affecting judges pensions (e.g. McCloud) and firefighter pensions (e.g. Sergeant) which had previously been considered by employment tribunals. The rulings have implications for the LGPS, Police and Fire schemes since similar reforms were implemented.

The indication from Government (Home Office circular to Fire and Rescue authorities of 4 April 2019) is that 'the Government is currently seeking permission to appeal this decision, with an unknown timeframe for this permission to be granted or denied'; whether the appeal progresses or not is expected to impact upon the valuation of liabilities associated with the pension scheme, but the impact cannot be known until the legal decision is clear.

## Note 43: Financial Instruments

### Financial Instruments - Classification

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the council.

- The majority of the council's financial liabilities held during the year are measured at amortised cost and comprised:
  - Long-term loans from the Public Works Loan Board and commercial lenders
  - Lease payables detailed in Note 16
  - Private Finance Initiative contracts detailed in Note 17
  - Trade payables for goods and services received
  - Guarantees for Local Authority Mortgage Scheme loans

# Notes to the Accounts

## Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the council. The financial assets held by the council during the year are accounted for under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flow) comprising:
  - Cash in Hand
  - Bank current and deposit accounts with Barclays Bank
  - Fixed term deposits with banks and building societies
  - Loans to other local authorities
  - Loans to subsidiaries and associates
  - Loans made for service purposes as detailed below as Soft Loans
  - Lease receivables, detailed in Note 16
  - Trade receivables for goods and services provided
- Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to both collect those cash flows and sell the instrument; and equity investments that the council has elected into this category) comprising:
  - - Equity Investments held for services purposes
  - - Pooled bond, equity, property and multi-asset funds managed by six fund managers held as strategic investments
- Fair value through profit and loss (all other financial assets) comprising:
  - - Money market funds managed by 10 individual fund managers
  - - Equity Investment in the Municipal Bond Agency

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.

## Financial Instruments - Balances

### Financial Liabilities

31 March 2018		Financial Liabilities	31 March 2019	
Short Term £000s	Long Term £000s		Short Term £000s	Long Term £000s
<i>Loans at amortised cost:</i>				
-	(258,779)	- Principal sum borrowed	(2,678)	(276,101)
(2,848)	-	- Accrued interest	(2,857)	-
-	(1,981)	- EIR adjustments	-	(1,973)
<b>(2,848)</b>	<b>(260,760)</b>	<b>Total Borrowing *</b>	<b>(5,535)</b>	<b>(278,074)</b>
<i>Liabilities at amortised cost:</i>				
-	(52,802)	- PFI arrangements	-	(50,934)
-	<b>(52,802)</b>	<b>Total Other Long-term Liabilities</b>	-	<b>(50,934)</b>
<i>Liabilities at amortised cost:</i>				
(120,311)	(1,244)	- Trade payables	(151,388)	(1,241)
(35)	-	- Finance leases	-	-
(1,672)	-	- PFI arrangements	(1,868)	-
<b>(122,018)</b>	<b>(1,244)</b>	<b>Included in Creditors **</b>	<b>(153,256)</b>	<b>(1,241)</b>
-	(5)	- Financial guarantees	-	-
-	-	- Loan commitments	-	475
-	<b>(5)</b>	<b>Included in Provisions</b>	-	<b>475</b>
<b>(124,866)</b>	<b>(314,810)</b>	<b>Total Financial Liabilities</b>	<b>(158,790)</b>	<b>(329,774)</b>

## Notes to the Accounts

\* The total short-term borrowing includes £5.535m (2018: £2.848m) representing accrued interest and principal repayments due within 12 months on long-term borrowing.

\*\* The creditors lines on the Balance Sheet include £39.233m (2018: £36.043m) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

### Financial Assets

31 March 2018		31 March 2019	
Short Term	Financial Assets	Short Term	Long Term
£000s		£000s	£000s
	<i>Investments amortised cost:</i>		
23,044	- - Principal	60,061	-
6	- - Accrued interest	106	-
-	- - Loss allow ance	(6)	-
	<i>Investments at fair value through other comprehensive income:</i>		
-	34,674 - Equity investments elected FVOCI	298	32,822
	<i>Investments at fair value through profit &amp; loss:</i>		
17,759	300 - Fair value	17,475	300
<b>40,809</b>	<b>34,974 Total Investments *</b>	<b>77,935</b>	<b>33,122</b>
62,917	- - Principal	56,477	-
-	- - Accrued interest	4	-
-	- - Loss allow ance	(21)	-
61,047	- - Fair value	59,267	-
<b>123,964</b>	<b>- Total Cash and Cash Equivalents</b>	<b>115,727</b>	<b>-</b>
	<i>Loans and Receivables at amortised cost:</i>		
74,213	25,831 - Trade receivables	91,100	9,480
6,673	122,918 - Lease receivables	7,131	123,515
-	- - Loans made for service purposes	90	14,074
-	- - Accrued interest	-	-
-	- - Loss allow ance	(8)	(54)
<b>80,886</b>	<b>148,749 Included in Debtors **</b>	<b>98,313</b>	<b>147,016</b>
<b>245,659</b>	<b>183,723 Total Financial Assets</b>	<b>291,974</b>	<b>180,137</b>

\*\* The debtors lines on the Balance Sheet include £43.581m (2018: £49.519m) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

### Material Soft Loans

Soft loans are those advanced at below market rates in support of the council's service priorities. Loans of cash value £14.5 m are included in the long-term debtors figure on the balance sheet at their adjusted value of £14.02m. There is one significant individual soft loan made by Hertfordshire County Council. This has been made at nil interest using Local Enterprise Partnership balances to lend £6m to Watford Borough Council. The remaining £8.07m is mostly comprised of Adult Social Care and Children's Services loans to service users (or their families) at nil interest to pay for home adaptations which will support the service user to live at home, and reduce their need for council services. These loans are secured against the property to ensure full repayment on the sale of the property.

## Notes to the Accounts

2017/18 £000s	Material Soft Loans	2018/19 £000s
	<b>13,856 Opening carrying amount of soft loans on 1st April</b>	<b>14,050</b>
	192 Cash value of new loans made in year	76
	(29) Fair value adjustment on initial recognition	(14)
	(115) Amounts repaid to the Council	(182)
	- Change in impairment loss allowance	(54)
	146 Increase in discounted amount due to passage of time	144
	<b>14,051 Closing Carrying Amount of Soft Loans on 31st March</b>	<b>14,019</b>

Soft loans have been valued by discounting the contractual payments at the estimated market rate of interest for a similar loan. The market rate has been arrived at by taking the council's average return on investments and adding a credit risk premium to cover the risk that the borrower is unable to repay the council.

### Equity Instruments elected to Fair Value through Other Comprehensive Income (FVOCI)

The council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the council's annual financial performance.

Dividends 2017/18 £000s	Fair Value 31 March 2018 £000s	Equity Instruments at Fair Value Through Other Comprehensive Income	Dividends 2018/19 £000s	Fair Value 31 March 2019 £000s
-	534	Shares in Herts for Learning Ltd (Associate)	-	545
750	3,245	Shares in Herts Catering Ltd (Subsidiary)	1,000	1,448
-	10	Shares in Herts Fullstop Ltd (Subsidiary, Formerly Surecare Supplies)	-	41
-	175	Shares in Herts Living Ltd (Subsidiary)	-	75
-	-	Shares in Herts at Home Ltd (Subsidiary)	-	159
<b>750</b>	<b>3,964</b>	<b>Total Equity Investments in Subsidiaries and Associates</b>	<b>1,000</b>	<b>2,268</b>
495	10,744	CCLA LAMIT - Property Fund	473	10,911
181	2,974	Investec Diversified Income Fund	138	2,949
189	5,250	M&G Strategic Corporate Bond Fund	190	5,158
177	5,079	Threadneedle Strategic Bond Fund	156	5,035
36	929	UBS Multi-Asset Income Fund	40	917
424	5,734	Schroder Income Maximiser Fund	429	5,583
<b>1,502</b>	<b>30,710</b>	<b>Total Investments in Pooled Funds - Elected FVOCI</b>	<b>1,425</b>	<b>30,554</b>
<b>2,252</b>	<b>34,674</b>	<b>Total</b>	<b>2,425</b>	<b>32,822</b>

# Notes to the Accounts

## Financial Instruments Gains and Losses

2017/18 Total	Financial Liabilities		Financial Assets		2018/19 Total £000s
	Amortised Cost	Amortised Cost	Elected to Fair Value through OCI	Fair Value through Profit and Loss	
	£000s	£000s	£000s	£000s	
17,617	Interest expense	27,763	-	-	27,763
-	- Losses from changes in fair value	-	-	-	15
(14)	Impairment losses	-	35	-	35
27	Fees paid	112	-	-	112
17,631	Interest payable and similar charges **	27,874	35	-	27,925
(2,688)	Interest income	-	(1,765)	-	(1,765)
(1,450)	Dividend income	-	-	(1,441)	(1,948)
-	- Gains on de-recognition	-	-	-	-
-	- Impairment loss reversals	-	(26)	-	(26)
(4,138)	Interest and investment income **	-	(1,790)	(1,441)	(3,738)
<b>13,493</b>	<b>Net impact on surplus/deficit on provision of services</b>	<b>27,874</b>	<b>(1,755)</b>	<b>(1,441)</b>	<b>24,187</b>
-	-	-	-	-	-
(3,784)	Gains on revaluation	-	-	(228)	(228)
-	- Losses on revaluation	-	-	2,221	2,221
<b>(3,818)</b>	<b>Impact on other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,993</b>	<b>1,993</b>
<b>9,709</b>	<b>Net Gain/(Loss) for the Year</b>	<b>28,164</b>	<b>(1,773)</b>	<b>552</b>	<b>26,467</b>

## Financial Instruments Fair Value

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2019, using the following methods and assumptions:

- Shares in the council's Subsidiaries and Associates have been valued from the company's balance sheet net assets.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2019, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31<sup>st</sup> March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

## Notes to the Accounts

Fair values are shown in the table below, split by their level in the fair value hierarchy:

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

31 March 2018				31 March 2019		
Carrying Amount	Fair Value	Fair Value Level	Fair Value Financial Liabilities	Carrying Amount	Fair Value	Fair Value Level
£000s	£000s			£000s	£000s	
			<i>Financial Liabilities held at amortised cost:</i>			
(104,724)	(149,950)	2	Long-Term PWLB Loans	(153,505)	(201,500)	2
(50,827)	(94,362)	2	Long-term LOBO Loans	(20,240)	(35,332)	2
(108,056)	(176,814)	2	Other Long-term Loans	(107,006)	(171,933)	2
(54,508)	(87,314)	2	Lease payables and PFI Liabilities	(50,934)	(86,347)	2
5	5	2	Future repayments on mortgages and advances	-	-	2
(121,555)	(121,555)	2	Creditors	(154,497)	(154,497)	2
<b>(439,665)</b>	<b>(629,990)</b>		<b>TOTAL</b>	<b>(486,182)</b>	<b>(649,609)</b>	

\* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

31 March 2018				31 March 2019		
Carrying Amount	Fair Value	Fair Value Level	Fair Value Financial Assets	Carrying Amount	Fair Value	Fair Value Level
£000s	£000s			£000s	£000s	
			<i>Financial Assets Held at Fair Value:</i>			
78,806	-	2	Money Market Funds	59,267	59,267	2
30,710	-	1	Bond, Equity and Property Funds	32,822	32,822	1
4,264	-	N/A	Shares in Unlisted Companies	2,568	2,568	2
			<i>Financial Assets Held at Amortised Cost:</i>			
23,006	23,006	2	Loans to Local Authorities	45,000	45,000	2
62,917	62,917	-	Bank Deposits	68,008	68,008	2
129,590	93,924	-	Lease Receivables	130,646	103,787	2
100,044	100,044	2	Debtors	100,580	100,580	2
<b>429,338</b>	<b>393,672</b>		<b>TOTAL</b>	<b>438,891</b>	<b>412,031</b>	

\* The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar investments is now higher than that obtained when the investment was originally made.

# Notes to the Accounts

## Note 44: Impairment Losses

2017/18 £000s		2018/19 £000s
	14 Icelandic Investments	25
<b>14</b>	<b>Total</b>	<b>25</b>

### Accounting

A £0.025m reversal of previous years' impairment loss for Kaupthing, Singer and Friedlander Ltd (KSF) has been recognised in the Comprehensive Income and Expenditure Account in 2018/19, reflecting an improvement in the forecast recovery for the KSF investments based on the latest forecast dividend from the administrators. This has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the council until remaining outstanding monies are recovered.

The Heritable investments were fully impaired in 2015/16 as a result of the administrators' forecast that there would be no further distributions in respect of the Heritable investments. They have not changed their view on Heritable and (as detailed below) we expect no further dividend to be paid for these investments. No adjustment has therefore been made to impairment losses for Heritable investments during 2018/19.

Notional interest is also credited to the Comprehensive Income and Expenditure account in 2018/19 of £0.003m.

### Icelandic Investments

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

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

### Heritable Bank

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

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

The latest administrators report from March 2019 states that there are currently no planned distributions to creditors. This is unchanged from the report from March 2018, and in 2016/17 the council recognised impairment based on there being no expectation of further recovery.

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

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



# Notes to the Accounts

## Kaupthing, Singer and Friedlander Ltd (KSF)

The latest creditor report issued in October 2017 by the administrators Ernst and Young noted that the return to creditors was projected to be in the range of 86.50p to 87.0p in the £. The council has recognised impairment based on a recovery of 86.75% of its claim, (this is the mid-point of the range estimated by the administrators).

Following a dividend payment in November 2018, 85.75p in the £ has been distributed to Creditors.

In calculating the impairment the council has therefore made the assumption that future recoveries will be received in May 2019 at 0.20p in the £, November 2019 and May 2020 at 0.25p in the £, and November 2020 at 0.30p in the £.

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

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

## LBI hf (formerly Landsbanki hf)

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

## Glitnir Bank hf

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

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

### Nature and Extent of Risks Arising from Treasury Management

The council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the council.
- *Liquidity Risk:* The possibility that the council might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

# Notes to the Accounts

## Credit Risk: Treasury Investments

The council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £15m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £10m applies. The council also sets limits on investments in certain sectors. No more than £50m in total can be invested for a period longer than one year.

The council continues to recognise balances in respect of impaired investments in Icelandic Banks, and will do so until the administration of those banks is completed. The impaired balance for the investments is £60k.

The table below summarises the credit risk exposures of the council's treasury investment portfolio by credit rating and remaining time to maturity:

31 March 2018			31 March 2019		
Short-term	Long-term	Credit Rating	Short-term	Long-term	
£000s	£000s		£000s	£000s	
78,527	-	AAA	76,743	-	
9,966	-	A	17,152	-	
-	-	A-	5,000	-	
23,000	-	Unrated local authorities	45,000	-	
111,493	-	<b>Total</b>	<b>143,895</b>	-	
-	30,000	Credit risk not applicable*	-	30,000	
111,493	<b>30,000</b>	<b>Total investments</b>	<b>143,895</b>	<b>30,000</b>	

\* Credit risk is not applicable to shareholdings and pooled funds where the council has no contractual right to receive any sum of money.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 122% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31 March 2019, £0.006m (2018: £0) of loss allowances related to treasury investments.

## Credit Risk: Trade and Lease Receivables

The council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

## Notes to the Accounts

31 March 2018			31 March 2019	
Trade receivables	Lease receivables	Age Category	Trade receivables	Lease receivables
£000s	£000s		£000s	£000s
26,187	129,590	Neither past due nor impaired	43,591	130,646
2,884	-	Past due < 1months	2,160	-
6,256	-	Past due < 3 months	2,806	-
6,427	-	Past due 3-9 Months	6,454	-
3,217	-	Past due 9-15 Months	6,306	-
2,019	-	Past due >15 Months	3,179	-
5,236	-	Past due >21 Months	5,573	-
<b>52,226</b>	<b>129,590</b>	<b>Total receivables</b>	<b>70,069</b>	<b>130,646</b>

Loss allowances on trade assets have been calculated by reference to the council's historic experience of default. Receivables are collectively assessed for credit risk based on the type of customer and the age of the debt at the reporting date, and are shown below on the basis of the service department which raised the debt.

31 March 2018			31 March 2019	
Gross receivable	Loss allowance	Service Department	Gross receivable	Loss allowance
£000s	£000s		£000s	£000s
41,328	(4,029)	Adult Care Services	63,419	(3,902)
2,152	(247)	Children's Services	2,965	(340)
563	(7)	Community Protection	312	(13)
1,520	(91)	Environment and Infrastructure	637	(101)
1,178	(10)	Herts Business Supplies	1,713	(167)
5,485	(914)	Resources	1,023	(176)
<b>52,226</b>	<b>(5,298)</b>	<b>Total</b>	<b>70,069</b>	<b>(4,698)</b>

Receivables are written off to the Surplus or Deficit on the Provision of Services as the final stage of the council's Debt management process. Only when all avenues to recover (which include legal proceedings) have been exhausted is debt written off.

### Credit Risk: Loans, Financial Guarantees and Loan Commitments

In furtherance of the council's strategic objectives, it has lent money to its subsidiary Herts Living Ltd. It has also committed to lend money to its subsidiary Herts at Home Ltd should it be requested to do so at market rates of interest.

The amounts recognised on the balance sheet, and the council's total exposure to credit risk from these instruments are:

Borrower	Exposure Type	Balance Sheet 31 March 2019	Balance Sheet 31 March 2019	Balance Sheet 31 March 2018	Balance Sheet 31 March 2018
		£000s	£000s	£000s	£000s
Subsidiaries	Loan commitment at market rates	82	585	-	-

## Notes to the Accounts

The council manages the credit risk inherent in its loans for service purposes, financial guarantees and loan commitments in line with its published Investment Strategy.

Loss allowances on loans for service purposes, financial guarantees and loan commitments have been calculated by reference to the premium of the interest rate in force over the councils weighted average borrowing rate. No expected credit loss provision has been recognised for the undrawn loan commitment to Herts at Home Limited, but a balance equal to the total risk exposure for this loan is held in reserve to fund any future impairment.

### Liquidity Risk

The council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and setting a limit on the % of the council's borrowing which matures in any one financial year.

The maturity analysis of financial instruments is as follows:

31 March 2018			Time to maturity	31 March 2019		
Liabilities £000s	Assets £000s	Net £000s		Liabilities £000s	Assets £000s	Net £000s
-	142,487	142,487	Not over 1	(2,678)	173,895	171,218
(249)	-	(249)	Over 1 but not over 2	(5,325)	-	(5,325)
(5,396)	-	(5,396)	Over 2 but not over 5	(12,786)	-	(12,786)
(14,500)	-	(14,500)	Over 5 but not over 10	(32,143)	-	(32,143)
-	-	-	Over 10 but not over 20	(38,019)	-	(38,019)
(98,134)	-	(98,134)	Over 20 but not over 40	(77,329)	-	(77,329)
(91,100)	-	(91,100)	Over 40	(91,100)	-	(91,100)
(49,400)	-	(49,400)	Uncertain date*	(19,400)	-	(19,400)
<b>(258,779)</b>	<b>142,487</b>	<b>(116,292)</b>	<b>Total receivables</b>	<b>(278,779)</b>	<b>173,895</b>	<b>(104,884)</b>

\* The council has £19.4mm (2018: £49.4m) of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the council is likely to repay these loans. The maturity date is therefore uncertain.

### Market Risks: Interest Rate Risk

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

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. 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. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

## Notes to the Accounts

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, £276m (2018: £258m) of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and £2.58m (2018: £0m) to variable rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

31 March 2018	Interest Rate Sensitivity	31 March 2019
£000s		£000s
-	Increase in interest payable on variable rate borrowings	2
1,425	Increase in interest receivable on variable rate investments	1,739
-	Decrease in fair value of investments held at FVPL	-
<b>1,425</b>	<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>1,741</b>
513	Decrease in fair value of investments held at FVOCI	449
-	<b>Impact on Comprehensive Income and Expenditure</b>	<b>2,191</b>
-	<i>Decrease in fair value of loans and investments at amortised cost*</i>	-

\*No impact on Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. The council has £19.4m (2018: £49.4m) of "Lender's option, borrower's option" (LOBO) loans with maturity dates between 2065 and 2066 where the lender has the option to propose an increase in the rate payable; the council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of the lender increasing the rate is low; however, the likelihood will increase in later years should market interest rates rise.

### Market Risks: Price Risk

The market prices of the council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the council's maximum exposure to property investments of £10m. A 5% fall in commercial property prices at 31st March 2019 would result in a £0.552m (2018: £0.516m) charge to Other Comprehensive Income and Expenditure which is then transferred to the Financial Instrument Revaluation Reserve.

The council's investment in a pooled equity funds is subject to the risk of falling share prices. This risk is limited by the council's maximum exposure to equity investments of £10m. A 5% fall in share prices at 31st March 2019 would result in a £0.331m (2018: £0.354m) charge to Other Comprehensive Income and Expenditure which is then transferred to the Financial Instrument Revaluation Reserve.

### Market Risks: Foreign Exchange Risk

At 31 March 2019 the council had no investments denominated in foreign currency.

# Notes to the Accounts

## Note 46: Trust Funds

The council acts as Treasurer and Financial Adviser primarily to a number of educational prize funds, endowments, scholarships and bequests that generally have specific trustees to manage them. Capital is invested in accordance with the trustee's instructions in a range of external investments or, if held as cash by the council, such balances will earn interest at the market seven-day rate. These funds do not represent assets of the council and have not been included in the balance sheet. As at 31<sup>st</sup> March 2019 the total value of educational endowments was £0.333m (31<sup>st</sup> March 2018 - £0.330m).

## Note 47: Related Parties

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

### Central Government

The central UK government has effective control over the general operations of the council – it is responsible for providing the statutory framework, within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in Note 29. Grant receipts outstanding as at 31 March 2019 are shown in Note 38. These grants are in addition to the council's share of the revenue support grant and redistributed business rates income as calculated by central government.

### Other Public Bodies

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

### Hertfordshire County Council Pension Fund

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

### Locality Budgets

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

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

### Members and Officers

In addition the following members and officers sit on the Boards of the following organisations. In some cases, the council has nominated these members and officers to sit on these Boards to represent the council. The table overleaf records the total value of transactions in the year with these organisations.

## Notes to the Accounts

Total of Council's transactions with the organisation 2017/18	Name	Organisation	Total of Council's transactions with the organisation 2018/19
£000s			£000s
n/a	Roma Mills (18/19 only)	Carers in Hertfordshire	1,663
14	Ian Reay (17/18 & 18/19)	Chilterns Conservation Board	28
39	Asif Khan (17/18 & 18/19)	College of Haringey, Enfield and North East London	48
444	Richard Roberts (17/18 & 18/19), Tina Howard (18/19 only)	Community Action Dacorum	276
n/a	Fiona Guest (18/19 only)	Druglink	76
15	Ron Tindall (17/18 & 18/19)	Hertfordshire Domestic Abuse Helpline	117
264	David Andrews (17/18 only), Derrick Ashley (18/19 only), Susan Featherstone (18/19 only)	Hertfordshire Groundwork Trust	186
10,528	Steven Pilsworth (17/18 only)	Hertfordshire Schools Building Partnership	n/a
n/a	Steven Pilsworth (18/19 only)	Herts at Home	698
397	Michael Collier (17/18 only)	Herts Catering Ltd (HCL)	n/a
4,094	Michael Collier (17/18 only), Ben Jay (18/19 only)	Herts For Learning (HFL)	5,921
911	Derrick Ashley (17/18 only), Iain MacBeath (17/18 and 18/19) and Steven Pilsworth (17/18 and 18/19)	Herts Full Stop (formerly SureCare Supplies Ltd)	973
67	Annie Brewster (17/18 only)	Herts Sports Partnership	n/a
241	Alan Plancey (17/18 & 18/19)	Jewish Care	167
n/a	Morris Bright (18/19 only), David Williams (18/19 only)	Local Enterprise Partnership	4,156
79	Michael Collier (17/18 only)	Police & Crime Commissioner (PCC)	n/a
14	Jenny Coles (17/18 and 18/19)	Research in Practice	20
11	Fiona Hill (17/18 & 18/19)	Royston Day Centre	11
21	Sandy Walkington (17/18 only)	St Albans Bereavement Network	n/a
22	Michael Hearn (17/18 & 18/19)	The Hearn Training Company Limited	22
n/a	Barbara Gibson (18/19 only)	The Living Room	216
1,442	Tim Hutchings (17/18 & 18/19), Steve Jarvis (17/18 & 18/19), Paul Zukowskyj (17/18 & 18/19)	University of Hertfordshire	3,488
74	Frances Button (17/18 & 18/19), Tim Williams (17/18 & 18/19)	Watford Sheltered Workshops Ltd	75
<b>18,677</b>	<b>Total</b>		<b>18,140</b>

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

Where there is a new entry for 2018/19, either because there was no relationship in the prior year, or the relationship was judged immaterial, the comparative level of total transactions with the organisation have not been included in the 2017/18 details. The amounts disclosed in the 2017/18 accounts have been shown for comparative purposes even if no ongoing relationship exists.

## Notes to the Accounts

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

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

Name	Nature of Business	Owned %	Nominal Value £
Hertfordshire Catering Ltd	A wholly owned and controlled local authority limited company that provides a school meals service.	100%. Not consolidated into Group Accounts due to immaterial value of transactions*	£100,000
Herts for Learning Ltd	A schools advice company owned by the Council, and schools (both maintained and academies) within Hertfordshire.	The Council owns 19% of shares, with the remaining shares (81%) owned by Schools	£ 3,150
Herts Fullstop Ltd	A wholly owned and controlled local authority limited company which provides a wide variety of equipment and supplies to non-profit making groups and to private businesses who predominately service the care and education sectors.	Wholly owned (have bought the one and only share)	£ 10,000
East of England Trading Standards Association	A company created to draw down funding to deliver certain regional projects, composed of eleven local authorities.	9.00%	£ 1
Herts Living Ltd	A wholly owned and controlled local authority limited company which buys, sells and develops real estate properties.	Wholly owned	£175,000
Herts at Home Ltd	A wholly owned and controlled local authority limited company which provides local care services to keep people independent in their own homes.	Wholly owned	£140,000

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

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

In addition to the consideration of these companies, maintained schools within Hertfordshire are deemed under IFRS 10 to be entities under the council's control, and so fall within the group boundary. The Code provides a specific adaptation to IFRS 10 and IAS27, under which schools are consolidated within the single entity accounts. The summary position of these schools at 31 March 2019, by category, is shown in the following table:



## Notes to the Accounts

	Number of schools	Expenditure £000s	Income £000s	Surplus/Deficit at 31/03/19 £000s
<b>Nursery</b>	<b>14</b>	<b>10,552</b>	<b>10,551</b>	<b>1</b>
Community	14	10,552	10,551	1
<b>Primary</b>	<b>345</b>	<b>437,775</b>	<b>433,894</b>	<b>3,881</b>
Academy	4	2,077	2,077	0
Community	216	303,456	299,688	3,768
Voluntary Aided	83	85,001	84,939	62
Voluntary Controlled	33	31,338	30,982	356
Foundation	9	15,903	16,208	(305)
<b>Secondary</b>	<b>19</b>	<b>99,902</b>	<b>99,929</b>	<b>(27)</b>
Academy	4	10,443	11,543	(1,100)
Community	1	8,663	8,640	23
Voluntary Aided	3	15,633	16,031	(398)
Voluntary Controlled	1	2,092	2,089	3
Foundation	10	63,071	61,628	1,444
<b>Special *</b>	<b>20</b>	<b>45,718</b>	<b>44,982</b>	<b>736</b>
Community	19	42,822	42,219	603
Foundation	1	2,896	2,763	133
<b>Education Support Centres *</b>	<b>7</b>	<b>14,799</b>	<b>14,449</b>	<b>350</b>
Community	7	14,799	14,449	350
<b>Total</b>	<b>405</b>	<b>608,746</b>	<b>603,805</b>	<b>4,941</b>

\* includes Edwinstree Base Unit

### Note 49: Acquired and Discontinued Operations

There have been no Acquired or Discontinued Operations during 2018/19.

# **Local Government Pension Fund Accounts**

# Local Government Pension Fund Accounts

## Local Government Pension Fund Accounts

The Council is the Administering Authority for the Hertfordshire Pension Fund (“Pension Fund”) which is managed and administered in accordance with the Local Government Pension Scheme Regulations 2013. These accounts give a stewardship report of the financial transactions of the Pension Fund during 2018/19, and of the disposition of its assets at 31 March 2019.

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

The Pension Fund covers staff employed by the Council (including maintained schools), the ten District Councils in Hertfordshire and 325 other bodies. The Pension Fund is available to all local authority employees within Hertfordshire, except teachers, fire personnel and a number of Public Health staff 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 2019 was as follows:

31 March 2018*		31 March 2019
34,425	Contributors	36,433
26,960	Pensioners	27,977
42,481	Deferred benefits (former contributors)	43,408
<b>103,866</b>	<b>Total Members</b>	<b>107,818</b>

\*The 2017/18 membership figures have been updated from those published in the 2017/18 Annual Report following late notifications of changes of membership. This is to ensure that the most accurate figures available are reported.

The table below provides a summary of the Pension Fund accounts for the year 2018/19:

2017/18 £000s		2018/19 £000s
<b>4,243,371</b>	<b>Value of the Pension Fund at 1 April</b>	<b>4,499,017</b>
27,532	Net additions / (withdrawals) from dealing with those directly involved in the scheme	30,474
(14,629)	Management expenses	(12,882)
242,744	Net returns on investments	318,394
<b>255,646</b>	Increase / (Decrease) in the Pension Fund during the year	<b>335,987</b>
<b>4,499,017</b>	<b>Value of the Pension Fund at 31 March</b>	<b>4,835,004</b>

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

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

## Local Government Pension Fund Accounts

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

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

### 1. Fund Account

2017/18			2018/19	
£000s	£000s	Note	£000s	£000s
35,382		Contributions receivable from members	37,082	
136,379		Contributions receivable from employers	142,856	
17,635		Transfers in from other schemes	17,759	
112		Other income	9	
	<b>189,508</b>	<b>Additions from dealings with those directly involved in the Scheme</b>		<b>197,706</b>
(122,729)		Pensions	(130,031)	
(22,904)		Commutation of pensions and lump sum retirement benefits	(25,092)	
(2,468)		Lump sum death benefits	(3,094)	
	<b>(148,102)</b>	<b>Benefits payable to members</b>		<b>(158,217)</b>
(626)		Refunds of contributions	(497)	
(58)		State scheme premiums	4	
(13,190)		Transfers out to other schemes	(8,472)	
	<b>(13,874)</b>	<b>Payments to and on account of leavers</b>		<b>(8,964)</b>
	-	Refund to employers upon cessation		(50)
	<b>27,532</b>	<b>Net additions / (withdrawals) from dealings with those directly involved in the Scheme</b>		<b>30,474</b>
(1,491)		Administrative costs	(1,729)	
(1,166)		Oversight and governance costs	(1,217)	
(11,972)		Investment management expenses	(9,936)	
	<b>(14,629)</b>	<b>Management expenses</b>		<b>(12,882)</b>
39,655		Investment Income	28,106	
(167)		Taxes on income	(156)	
203,256		Profits and losses on disposals of investments and changes in value of investments	290,445	
	<b>242,744</b>	<b>Net return on investments</b>		<b>318,394</b>
	<b>255,646</b>	<b>Net increase / (decrease) in the net assets available for benefits during the year</b>		<b>335,987</b>

# Local Government Pension Fund Accounts

## 2. Net Assets Statement

31 March 2018		Note	31 March 2019	
£000s	£000s		£000s	£000s
815,111		Equities	472,469	
		<u>Pooled investment vehicles</u>		
295,919		Pooled property investments	332,065	
1,844,181		Unitised insurance policies	1,898,841	
606,178		Unit trusts	1,298,690	
116,026		Private Equity	143,294	
-		Infrastructure Debt	59,798	
685,216		Other managed funds	507,774	
16		Derivative contracts	9	355
101,564		Cash deposits	83,796	
13,501		Other investment balances	2,094	
	<b>4,477,710</b>	<b>Total investment assets</b>		<b>4,799,177</b>
(676)		Derivative contracts	9	(910)
(5,854)		Other investment balances		-
	<b>(6,530)</b>	<b>Total investment liabilities</b>		<b>(910)</b>
	<b>4,471,181</b>	<b>Total investment assets and liabilities</b>	8a	<b>4,798,267</b>
1,478		Long term assets	10	739
	<b>1,478</b>	<b>Total non-current assets and liabilities</b>		<b>739</b>
29,780		Current assets	11	39,961
(3,422)		Current liabilities	12	(3,963)
	<b>26,358</b>	<b>Total current assets and liabilities</b>		<b>35,998</b>
	<b>4,499,017</b>	<b>Net assets of the Scheme available to fund benefits as at 31 March</b>		<b>4,835,004</b>

Scott Crudgington  
Director of Resources

# Local Government Pension Fund Accounts

## 3. Statement of Accounting Policies

### Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards, as amended for the UK public sector.

The accounts summarise the transactions for the 2018/19 financial year and net assets of the Pension Fund as at 31 March 2019. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits at the Net Assets Statement date is detailed in Note 16.

### Valuation of Assets

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

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

### Cash and Cash Equivalents

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

### Foreign Currency Translation

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

## Local Government Pension Fund Accounts

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

### Management Expenses

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

Fees of the external Investment Managers are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management. Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2018/19, £57,024 was based on such estimates.

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

### VAT

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

### Benefits Payable

Pension and lump sum benefits payable include all amounts known to be due as 31 March 2019. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

### Contributions

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

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

### Transfers to and from other schemes

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

### Investment Income

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

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

## Local Government Pension Fund Accounts

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

### Taxation

The Pension Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is deducted from dividends paid on UK equities, which is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Provision is made for the estimated sums to be recovered and income grossed up accordingly. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

### Security Lending

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

### Additional Voluntary Contribution Investments

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

### Prior period adjustments

There were no material prior period adjustments in 2018/19 that require disclosure.

### Events after the Net Asset Date

There were no material post balance sheet events after 2018/19 that require disclosure.

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

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

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

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

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



## Local Government Pension Fund Accounts

outcomes could differ from those assumptions and estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Valuation of private equity investments:** The valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date. This may result in a variance between the valuation included in the Financial Statements and the actual value of the Pension Fund's investments as at 31 March 2019 issued by each of the private equity Investment Managers. At 31 March 2019 private equity investments totalled £204.5 million (including private equity investments held within the Global Alternatives Fund).
- **Contractual commitments:** Commitments to the private equity, infrastructure debt and private rental sector funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each fund at 31 March 2019 has been converted to base currency, based on exchange rates applicable at the net asset date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be different from the estimates.
- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits and the effect on the pensions liability of changes in individual assumptions are shown in Note 16.

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

# Notes to the Local Government Pension Fund Accounts

## Note 1: Contributions Receivable

2017/18			2018/19	
£000s	£000s		£000s	£000s
		<u>Members</u>		
35,088		Normal	36,805	
294		Additional	277	
	<b>35,382</b>	<b>Total members</b>		<b>37,082</b>
		<u>Employers</u>		
119,709		Normal	122,192	
14,932		Deficit funding	19,520	
1,737		Augmentation and early retirement strain costs	1,144	
	<b>136,379</b>	<b>Total employers</b>		<b>142,856</b>
	<b>171,761</b>	<b>Total contributions receivable</b>		<b>179,938</b>

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

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

Employers' deficit funding includes:

- £17,225,360 (£13,399,237 in 2017/18) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's service contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement accessible from <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>.
- £2,294,890 (£3,089,442 in 2017/18) paid by employers in excess of the minimum contribution levels required by the Pension Fund Actuary in the Rates and Adjustments Certificate.
- £nil (£nil in 2017/18) termination payments where an employer had ceased to be a participating employer in the Pension Fund.

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

2017/18			2018/19	
Employee £000s	Employer £000s		Employee £000s	Employer £000s
15,292	56,111	Administering Authority	16,017	58,345
17,824	69,058	Other Scheduled Bodies	18,906	74,493
2,265	11,210	Admitted Bodies	2,158	10,017
<b>35,382</b>	<b>136,379</b>	<b>Total contributions receivable</b>	<b>37,082</b>	<b>142,856</b>

# Notes to the Local Government Pension Fund Accounts

## Note 2: Transfers In from Other Schemes

The Pension Fund received £17,470,602 (£17,635,234 in 2017/18) in relation to individual members' transfers of benefits into the Pension Fund. No amounts were received during the year for group transfers from other schemes.

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

## Note 3: Benefits Payable

2017/18		2018/19
£000s		£000s
65,256	Administering Authority	70,031
68,694	Other Scheduled Bodies	72,578
14,152	Admitted Bodies	15,608
<b>148,102</b>	<b>Total benefits payable</b>	<b>158,217</b>

## Note 4: Transfers Out to Other Schemes

2017/18		2018/19
£000s		£000s
13,190	Individual transfers	8,472
-	Bulk transfers	-
<b>13,190</b>	<b>Total Transfers out to other schemes</b>	<b>8,472</b>

## Note 5: Management Expenses

### Investment management expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of assets under management or as a fixed annual fee. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target. Performance targets are detailed within the Investment Strategy Statement, which is included in the main Pension Fund Annual Report 2018/19, available from the pension fund's website (<https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>).

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

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

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

2017/18		2018/19
£000s		£000s
11,430	Management fees	9,407
397	Transaction costs	360
145	Custody fees	168
<b>11,972</b>	<b>Total investment management expenses</b>	<b>9,936</b>

## Notes to the Local Government Pension Fund Accounts

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

2017/18		2018/19
£000s		£000s
395	Equities	253
-	- Unitised Insurance Policies	5
-	- Unit Trusts	83
-	- Infrastructure Debt	11
2	Property	-
1	Alternatives	9
<b>397</b>	<b>Total Transaction costs</b>	<b>360</b>

### Note 6: Investment Income

#### Analysis of investment income

2017/18		2018/19
£000s		£000s
(2)	Income from fixed interest securities	-
29,403	Dividends from equities	19,206
-	- Income from bonds	-
	Income from pooled investment vehicles:	
7,457	- Pooled property investments	7,590
1,513	- Other pooled investments	884
861	Interest on cash deposits	331
423	Other investment income	95
<b>39,655</b>	<b>Total investment income</b>	<b>28,106</b>

An analysis of investment income accrued during 2017/18 and 2018/19 is shown in the following table.

2017/18				2018/19			
UK	Overseas	Global	Total	UK	Overseas	Global	Total
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
22,710	6,694	-	<b>29,403</b>	10,936	8,270	-	19,206
-	(2)	-	<b>(2)</b>	-	-	-	-
7,358	1,513	99	<b>8,970</b>	7,339	1,135	-	8,474
209	652	-	<b>861</b>	203	128	-	331
226	196	-	<b>423</b>	26	69	-	95
<b>30,503</b>	<b>9,053</b>	<b>99</b>	<b>39,655</b>	<b>26,901</b>	<b>1,205</b>	<b>-</b>	<b>28,106</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 £57,241 for 2018/19 (£252,855 for 2017/18). 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

## Notes to the Local Government Pension Fund Accounts

securities on loan and collateral held at 31 March 2019 and 2018 is shown in the following table, analysed by collateral type.

2017/18			2018/19	
Market value of securities on loan	Collateral held		Market value of securities on loan	Collateral held
£000s	£000s		£000s	£000s
22,407	23,590	Government debt and supranationals	19,429	20,125
-	-	UK Equity DBV	-	-
25,926	27,339	G10 debt	3,413	3,597
<b>48,333</b>	<b>50,929</b>	<b>Total</b>	<b>22,842</b>	<b>23,722</b>

### Note 7: Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

An analysis of investment transactions in 2018/19 is shown in the following table.

Value at 31 March 2018		Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Profits and losses on disposals and change in value of investments	Transfer to Other Categories ***	Value at 31 March 2019
£000s		£000s	£000s	£000s	£000s	£000s
	<u>Equities</u>					
427,445	UK	73,883	(120,581)	(103,868)	(238,051)	38,827
387,666	Overseas	42,571	(40,865)	44,269	-	433,642
	<u>Pooled investment vehicles</u>					
295,919	Pooled property investments	17,837	(9,200)	27,509	-	332,065
1,844,181	Unitised insurance policies	384,024	(438,492)	109,127	-	1,898,841
606,178	Unit trusts	18,329	(1,569)	249,805	425,947	1,298,690
116,026	Private equity	37,409	(38,043)	27,902	-	143,294
-	Infrastructure Debt	59,723	(227)	301	-	59,798
685,216	Other managed funds	75,000	(5,308)	(62,239)	(184,894)	507,774
(660)	Derivative contracts (net)*	14,584	(8,985)	(5,494)	-	(555)
101,564	Cash deposits	-	(14,938)	171	(3,001)	83,796
<b>4,463,534</b>	<b>Subtotal</b>	<b>723,361</b>	<b>(678,207)</b>	<b>287,484</b>	<b>-</b>	<b>4,796,172</b>
<b>7,647</b>	<b>Net other investment balances**</b>	<b>-</b>	<b>(3,605)</b>	<b>-</b>	<b>-</b>	<b>2,094</b>
<b>4,471,181</b>	<b>Total investments assets / (liabilities)</b>	<b>723,361</b>	<b>(681,812)</b>	<b>287,484</b>	<b>-</b>	<b>4,798,267</b>

\* Net forward foreign exchange assets/liabilities (see note 8a).

\*\* Net other investment balances assets/liabilities (see note 8a). Accrued income shown within closing balance.

\*\*\* The values within 'Transfer to Other Balances' relate to the transition to ACCESS, Hertfordshire Pension Fund's asset pool. Mandates held with Baillie Gifford transitioned during 2018-19. These mandates will be held as Unit Trusts going forward.

# Notes to the Local Government Pension Fund Accounts

An analysis of investment transactions in 2017/18 is shown in the following table.

Value at 31 March 2017		Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Profits and losses on disposals and change in value of investments	Value at 31 March 2018
£000s		£000s	£000s	£000s	£000s
	<u>Equities</u>				
729,797	UK	434,170	(754,799)	18,277	427,445
418,921	Overseas	60,786	(131,474)	39,433	387,666
	<u>Pooled investment vehicles</u>				
286,375	Pooled property investments	17,110	(16,348)	8,783	295,919
1,365,648	Unitised insurance policies	2,177,391	(1,751,123)	52,265	1,844,181
598,057	Unit trusts	182,742	(190,898)	16,277	606,178
131,052	Private equity	27,942	(51,527)	8,560	116,026
605,223	Other managed funds	30,001	(2,756)	52,749	685,216
1,702	Derivative contracts (net)*	4,505	(15,122)	8,255	(660)
67,496	Cash deposits	-	35,423	(1,356)	101,564
<b>4,204,271</b>	<b>Subtotal</b>	<b>2,934,647</b>	<b>(2,878,625)</b>	<b>203,241</b>	<b>4,463,534</b>
<b>3,881</b>	<b>Net other investment balances**</b>	<b>-</b>	<b>3,716</b>	<b>-</b>	<b>7,647</b>
<b>4,208,151</b>	<b>Total investments assets / (liabilities)</b>	<b>2,934,647</b>	<b>(2,874,909)</b>	<b>203,241</b>	<b>4,471,181</b>

\* Net forward foreign exchange assets/liabilities (see note 8a)

\*\* Net other investment balances assets/liabilities (see note 8a). Accrued income shown within closing balance.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments correspond to the sterling equivalent amount of forward foreign exchange settled during the year. The sale proceeds for cash deposits represent the net movement in cash held by the Investment Managers during the year. The change in market value of cash results from gains and losses on foreign currency cash transactions.

# Notes to the Local Government Pension Fund Accounts

## Note 8: Investment Analysis

### a) Analysis of investment assets at market value

2017/18		2018/19	
£000s	£000s	£000s	£000s
		<b>Investment assets</b>	
		<u>Equities</u>	
427,445		38,827	
387,666		433,642	
	<b>815,111</b>		<b>472,469</b>
149,040		160,794	
44		1	
146,835		171,270	
	<b>295,919</b>		<b>332,065</b>
		<b>Pooled property investments</b>	
139,027		147,888	
778,607		827,943	
926,546		923,010	
	<b>1,844,181</b>		<b>1,898,841</b>
		<b>Total unitised insurance policies</b>	
-		367,387	
-		283,651	
-		-	
606,178		647,653	
-		-	
	<b>606,178</b>		<b>1,298,690</b>
		<b>Total unit trusts</b>	
116,026		143,294	
	<b>116,026</b>		<b>143,294</b>
		<b>Total private equity</b>	
-		59,798	
	<b>-</b>		<b>59,798</b>
		<b>Total infrastructure debt</b>	
17,233		-	
242,207		18	
425,776		507,756	
	<b>685,216</b>		<b>507,774</b>
		<b>Other managed funds</b>	
16		355	
	<b>16</b>		<b>355</b>
		<b>Total derivatives</b>	
101,564		83,796	
	<b>101,564</b>		<b>83,796</b>
		<b>Total Cash</b>	
-		2,094	
13,501		-	
	<b>13,501</b>		<b>2,094</b>
		<b>Total other investment balances</b>	
	<b>4,477,710</b>		<b>4,799,177</b>
		<b>Total investment assets</b>	

Table continues overleaf



## Notes to the Local Government Pension Fund Accounts

2017/18		2018/19	
£000s	£000s	£000s	£000s
			<b>Investment liabilities</b>
(676)		(910)	Forward foreign exchange contracts
	(676)		<b>Total derivatives contracts</b>
(5,854)		-	Amounts payable for the purchase of investments
-		-	Non recoverable tax payable
	(5,854)		<b>Total other investment balances</b>
	(6,530)		<b>Total investment liabilities</b>
			<b>Total investment assets and liabilities at market value</b>
	<b>4,471,181</b>		<b>4,798,267</b>

Six pooled holdings exceeded 5% of the total investment assets and liabilities available to fund benefits at 31 March 2019. ACCESS Baillie Gifford LTGG, ACCESS Baillie Gifford UK Equity, The Royal London Core Plus Bond Fund, UBS North America Equity Index Fund, Crown HCC Segregated Portfolio (LGT Capital Alternatives), UBS Over 5Y Index-Linked Gilts exceed 5% of the Pension Fund's total holdings.

There are six Pooled Funds which exceed 5% of their asset class at 31 March 2019. The Royal London Core Plus Bond Fund, UBS North America Equity Index Fund, Crown HCC Segregated Portfolio (LGT Capital Alternatives), UBS Over 5Y Index-Linked Gilts, ACCESS Baillie Gifford UK Equity and ACCESS Baillie Gifford LTGG.

Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

Investment assets and liabilities at the Net Asset date are further analysed by asset class in the following table.

2017/18					2018/19			
UK	Overseas	Global	Total		UK	Overseas	Global	Total
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
583,705	1,408,480	-	<b>1,992,185</b>	Equities	554,102	1,261,603	283,651	2,099,356
1,532,724	-	-	<b>1,532,724</b>	Bonds	1,570,662	-	-	1,570,662
149,040	116,070	572,612	<b>837,722</b>	Alternatives	220,592	143,295	679,026	1,042,913
89,311	12,260	(7)	<b>101,564</b>	Cash and cash equivalents	74,455	9,341	-	83,796
730	6,917	(660)	<b>6,987</b>	Other	299	1,796	(555)	1,540
<b>2,355,509</b>	<b>1,543,727</b>	<b>571,944</b>	<b>4,471,181</b>	<b>Total assets and liabilities</b>	<b>2,420,110</b>	<b>1,416,035</b>	<b>962,122</b>	<b>4,798,267</b>

# Notes to the Local Government Pension Fund Accounts

## b) Analysis by Investment Manager

The value of investments held by each Investment Manager on 31 March were:

31 March 2018			31 March 2019	
£000s	%		£000s	%
440,145	9.8	Allianz Global Investors Europe GmbH	523,366	10.9
666,792	14.9	Baillie Gifford & Co.	652,154	13.6
330,382	7.4	CBRE Global Collective Investors (UK) Ltd.	358,916	7.5
89,447	2.0	HarbourVest Partners, LLC.	95,881	2.0
375	0.0	Jupiter Asset Management Ltd.	-	0.0
369,123	8.3	Legal & General Assurance (Pensions Management) Limited	-	0.0
425,776	9.5	LGT Capital Partners (Ireland) Ltd.	507,756	10.6
17,537	0.4	Pantheon Ventures	39,625	0.8
690	0.0	Permira Advisers LLP	684	0.0
606,361	13.6	Royal London Asset Management Ltd.	647,836	13.5
44,284	1.0	Standard Life Investments Ltd.	46,872	1.0
1,479,949	33.1	UBS Group AG	1,898,841	39.6
-	0.0	Macquarie Group Limited	26,052	0.5
319	0.0	Residual funds from previous portfolios	284	0.0
<b>4,471,181</b>	<b>100.0</b>	<b>Funds externally managed</b>	<b>4,798,267</b>	<b>100</b>
<b>27,836</b>		<b>Funds held at Hertfordshire County Council and non-investment balances</b>	<b>36,737</b>	
<b>4,499,017</b>		<b>Net Assets of the Scheme</b>	<b>4,835,004</b>	

The market values in table Note 8(b) include the value of investments, cash and net current assets held by each Investment Manager at 31 March. The funds held by Hertfordshire County Council include net current assets, long term assets and cash required to manage the cash flow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by outgoing Investment Managers following the review of the Pension Fund's Investment Strategy.

## c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund's assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

# Notes to the Local Government Pension Fund Accounts

## Note 9: Derivatives

The Pension Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Pension Fund does not hold derivatives for speculative purposes.

### Forward foreign exchange contracts

Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties and are used to hedge against foreign currency movements. Forward foreign exchange contracts are disclosed in the accounts at fair value, which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

The counterparties at 31 March 2018 and 31 March 2019 were UK and overseas investment banks and the contracts held with these investment banks are analysed in the following table by duration.

2017/18				Duration	2018/19			
Currency Payable £000s	Currency Receivable £000s	Fair Value Asset Liability £000s £000s			Currency Payable £'000	Currency Receivable £000s	Fair Value Asset Liability £000s £000s	
(1,299)	1,297	-	(2)	Within 1 month	-	-	-	-
-	-	-	-	0-3 months	-	-	-	-
(135,320)	134,662	16	(673)	3-6 months	(161,581)	161,026	355	(910)
<b>(136,619)</b>	<b>135,959</b>	<b>16</b>	<b>(676)</b>	<b>Total</b>	<b>(161,581)</b>	<b>161,026</b>	<b>355</b>	<b>(910)</b>

## Note 10: Long Term Assets

Long term assets of £739,000 in the Net Assets Statement (£1,478,000 for 2017/18) relates to the bulk transfer of Magistrates Court staff to the civil service pension scheme in 2005 in accordance with the terms of transfer agreement.

## Note 11: Current Assets

2017/18		2018/19	
£000s		£000s	
13,831	Contributions due from employers	15,712	
15,087	Cash and cash equivalents	23,161	
379	VAT due from HMRC	317	
577	Other debtors and prepayments	772	
(95)	Provision for doubtful debt	-	
<b>29,780</b>	<b>Total current assets</b>	<b>39,961</b>	

Cash and cash equivalents represent investments in money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

## Notes to the Local Government Pension Fund Accounts

Current assets are further analysed by type of debtor organisation.

2017/18			2018/19	
£000s	£000s		£000s	£000s
3,321		Central government bodies	3,538	
9,358		Other local authorities	10,072	
5		NHS bodies	6	
2,103		Other entities and individuals	3,185	
	<b>14,788</b>	<b>Total debtors</b>		<b>16,800</b>
(95)		Provision for doubtful debt	-	
15,087		Cash and cash equivalents	23,161	
	<b>14,992</b>	<b>Total cash balances</b>		<b>23,161</b>
	<b>29,780</b>	<b>Total current assets</b>		<b>39,961</b>

### Note 12: Current Liabilities

2017/18			2018/19	
£000s	£000s		£000s	£000s
(1,301)		Tax payable to HMRC	(1,440)	
(868)		Investment management fees	(404)	
(396)		Other creditors	(1,186)	
(354)		Unpaid benefits	(932)	
(502)		Cash and cash equivalents	-	
	<b>(3,422)</b>	<b>Total current liabilities</b>		<b>(3,963)</b>

Cash balances in the table above include cash balances less cash in transit in the form of unrepresented cheques and payments committed by BACs at the net asset date.

Current liabilities are further analysed by type of creditor organisation.

2017/18			2018/19	
£000s	£000s		£000s	£000s
1,301		Central government bodies	(1,440)	
-		Other local authorities	-	
1,619		Other entities and individuals	(2,522)	
502		Cash and cash equivalents	-	
	<b>3,422</b>	<b>Total Current Liabilities</b>		<b>(3,963)</b>

# Notes to the Local Government Pension Fund Accounts

## Note 13: Fair Value – Basis of Valuation

The basis of the valuation of each classes of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Equities quoted</b>	Level 1	Published bid market price ruling on the final day of accounting period	N/A	N/A
<b>Other managed funds – equities</b>	Level 2	Closing single price	NAV based pricing set on a forward pricing basis	N/A
<b>Pooled property investments</b>	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV based pricing set on a forward pricing basis	N/A
<b>Unitised insurance contracts – equities</b>	Level 2	Price of a recent transaction for an identical asset	Inputs other than quoted prices that are observable, either directly or indirectly	N/A
<b>Unitised insurance contracts – bonds</b>	Level 2	Price of a recent transaction for an identical asset	Inputs other than quoted prices that are observable, either directly or indirectly	N/A
<b>Unit trusts – equities</b>	Level 2	Average of broker prices	Evaluated price feeds	N/A
<b>Unit trusts – bonds</b>	Level 2	Closing bid, mid and offer prices are published	NAV based pricing set on a forward pricing basis	N/A
<b>Global Alternatives fund</b>	Level 3	Closing single price	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
<b>Private equity</b>	Level 3	At fair value as determined by the General Partner in accordance with the terms of the Partnership Agreement and GAAP	Manager's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, adjustments to current prices for similar properties, valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis
<b>Infrastructure Debt</b>	Level 3	At fair value as determined by the General Partner in accordance with the terms of the Partnership Agreement and GAAP	Manager's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, adjustments to current prices for similar properties, valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis

# Notes to the Local Government Pension Fund Accounts

## Note 14: Financial Instruments

### a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

All financial instruments are carried in the balance sheet at their fair value. The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

31 March 2018			31 March 2019		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost
£000s	£000s	£000s	£000s	£000s	£000s
815,111	-	-	472,469	-	-
295,919	-	-	332,065	-	-
1,844,181	-	-	1,898,841	-	-
606,178	-	-	1,298,690	-	-
116,026	-	-	143,294	-	-
685,216	-	-	507,774	-	-
16	-	-	355	-	-
-	101,564	-	-	83,796	-
13,501	-	-	2,094	-	-
-	1,478	-	-	739	-
-	29,780	-	-	39,961	-
<b>4,376,147</b>	<b>132,821</b>	-	<b>4,655,583</b>	<b>124,496</b>	-
(676)	-	-	(910)	-	-
(5,854)	-	-	-	-	-
-	-	(3,422)	-	-	(3,963)
<b>(6,530)</b>	-	<b>(3,422)</b>	<b>(910)</b>	-	<b>(3,963)</b>
<b>4,369,617</b>	<b>132,821</b>	<b>(3,422)</b>	<b>4,714,471</b>	<b>124,496</b>	<b>(3,963)</b>

### b) Net gains and losses on financial instruments

2017/18		2018/19
£000s		£000s
204,612	Fair value through profit and loss	290,275
(1,356)	Financial Assets at amortised cost	171
<b>203,256</b>	<b>Total gains and losses</b>	<b>290,446</b>

# Notes to the Local Government Pension Fund Accounts

## c) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1:** Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed securities are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2:** Financial instruments where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3:** Financial instruments where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following tables provide an analysis of the financial assets and liabilities of the Pension Fund analysed across levels 1 to 3, based on the level at which the fair value is observable, along with comparative figures for 2018.

	31 March 2019			
	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
<u>Financial assets</u>				
Fair value through profit and loss	474,564	3,530,042	710,775	4,715,381
Financial Assets at amortised cost	124,496	-	-	124,496
<u>Financial liabilities</u>				
Fair value through profit and loss	-	(910)	-	(910)
Financial liabilities at amortised cost	(3,963)	-	-	(3,963)
<b>Net financial assets</b>	<b>595,097</b>	<b>3,529,132</b>	<b>710,775</b>	<b>4,835,004</b>

	31 March 2018			
	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
<u>Financial assets</u>				
Fair value through profit and loss	828,611	3,005,733	541,802	4,376,147
Loans and receivables	132,821	-	-	132,821
<u>Financial liabilities</u>				
Fair value through profit and loss	(5,854)	(676)	-	(6,530)
Financial liabilities at amortised cost	(3,422)	-	-	(3,422)
<b>Net financial assets</b>	<b>952,157</b>	<b>3,005,057</b>	<b>541,802</b>	<b>4,499,017</b>

## Notes to the Local Government Pension Fund Accounts

### d) Transfers between Levels 1 and 2

Assets valued £241,052,846 transferred from Level 1 to Level 2 in January 2019. This relates to the transition of the UK equity mandate with Baillie Gifford to Hertfordshire Pension Fund's asset pool, ACCESS.

### e) Reconciliation of fair value measurements within level 3

Value at 31-Mar- 18		Transfers into Level 3	Transfers out of Level 3	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Value at 31-Mar- 19
£000s				£000s	£000s	£000s	£000s	£000s
116,026	Private Equity	-	-	37,409	(38,043)	7,932	19,970	143,294
-	Infrastructure Debt			59,734	(192)	255	-	59,798
425,776	Global Alternatives Fund - LGT	-	-	75,000	-	6,980	-	507,756
<b>541,802</b>		<b>-</b>	<b>-</b>	<b>172,143</b>	<b>(38,234)</b>	<b>15,166</b>	<b>19,970</b>	<b>710,847</b>

### f) Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation method described above is likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Asset Class	Value as at 31-Mar-19	Assessed valuation range (+/-)	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
Private Equity	143,294	15%	164,788	121,800
Infrastructure Debt	59,798	15%	68,767	50,828
Global Alternatives Fund (LGT)	507,756	15%	583,919	431,593
	<b>710,847</b>		<b>817,475</b>	<b>604,220</b>



# Notes to the Local Government Pension Fund Accounts

## Note 15: Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### a) Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the pension fund. These regulations require the Pension Fund to formulate a policy for the investment of its Fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared an Investment Strategy Statement which sets out the Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. This statement is included in the main Pension Fund Annual Report 2018/19, which is available from the Pension Fund's website: <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee and Board quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by the County Council.

### b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition, the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Investment Managers' annual internal control reports. This is to ensure that Investment Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreements for the Pension Fund's bond managers prescribes the investment restrictions on the securities they can invest in, including the minimum acceptance criteria for investments.

Credit risk also arises through the Pension Fund's deposits with banks and financial instruments. For cash managed by the Administering Authority, the Pension Fund's Treasury Management Strategy for 2018/19 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

The credit ratings and amounts held in money market funds, call accounts and cash/current accounts at 31 March 2018 and 2019 are shown in the table overleaf.

## Notes to the Local Government Pension Fund Accounts

2017/18			2018/19	
£000s	Credit rating		£000s	Credit rating
<b>Cash managed by Administering Authority</b>				
(501) <sup>1</sup>	A-	Bank current account	378 <sup>1</sup>	A
1,497	A	Call accounts	1,742	A
13,589	AAA	Money market funds	21,040	AAA
<b>Cash managed by Custodian and Investment Managers</b>				
13,783	A to AA-	Bank current account (Custodian)	76,815	AA-
7,427	A	Bank current account (Alternatives Manager)	17,253	A+
97,998	AAA	Money Market Funds	6,981	AAA
<b>126,366</b>		<b>Total cash and cash equivalents</b>	<b>124,209</b>	

<sup>1</sup> Cash balances include cash balances less cash in transit in the form of un-presented cheques and payments committed by BACs at the Net Asset date.

### c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March 2019, £23,160,621 (100%) of the cash and cash equivalents held by the Administering Authority was held in money market funds, call accounts and bank current accounts.

The Pension Fund has set a cap of £45 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers over their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assets as assets which can be converted into sterling cash within three months. At 31 March 2019 the value of illiquid assets was £535,156,774 (11.2% of total fund assets).

### d) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £290,445,188.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended). Details of these can be found in the Pension Fund's Statement of Investment Principles included in the main Pension Fund Annual Report 2018/19.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of

## Notes to the Local Government Pension Fund Accounts

investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

### e) Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

The one year expected volatility in market prices are shown in the following table, along with the changes in the value of the Pension Fund's investment assets and liabilities if the market price of investments increase or decrease in line with these movements. The total fund volatility takes into account the expected interactions between the different asset classes, based on the underlying volatilities and correlations of the assets in line with mean variance portfolio theory.

Asset Class	Value as at	Change	Value on	Value on
	31 March 2019		Increase	Decrease
	£000s	%	£000s	£000s
UK Equities, Unit Trusts and Pooled Funds	554,102	16.60	646,083	462,121
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,588,887	16.90	1,857,409	1,320,365
Property	332,065	14.30	379,551	284,580
Corporate Bonds (medium term)	726,007	10.50	802,238	649,776
Index-Linked Gilts (medium term)	923,010	7.20	989,466	856,553
Private Equity	204,634	28.30	262,545	146,722
Infrastructure equity	69,147	20.10	83,045	55,248
High Yield Debt, Convertible Bonds, Insurance linked securities	107,569	7.30	115,421	99,716
Private Debt	2,031	7.70	2,187	1,874
Emerging market debt	37,631	12.30	42,259	33,002
Absolute Return/Diversified Growth	235,989	12.50	265,487	206,490
Cash, other investment balances and forward foreign exchange contracts	17,197	0.50	17,282	17,111
<b>Total Fund</b>	<b>4,798,267</b>		<b>5,462,974</b>	<b>4,133,559</b>

## Notes to the Local Government Pension Fund Accounts

Asset Class	Value as at 31 March 2018	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
UK Equities, Unit Trusts and Pooled Funds	583,705	16.80	681,767	485,642
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,431,376	17.90	1,687,592	1,175,159
Property	295,919	14.30	338,236	253,603
Corporate Bonds (medium term)	606,178	10.20	668,008	544,348
Index-Linked gilts (medium term)	926,546	7.20	993,258	859,835
Private Equity	181,302	28.30	232,610	129,993
High yield debt/convertible bonds/insurance linked securities	112,428	6.70	119,961	104,895
Private Debt	1,835	7.00	1,964	1,707
Emerging Market Debt	34,996	12.20	39,265	30,726
Infrastructure equity	10,724	20.10	12,879	8,568
Absolute return/Diversified Growth	167,429	12.60	188,525	146,333
Cash, other investment balances and forward foreign exchange contracts	118,744	0.50	119,337	118,150
<b>Total Fund</b>	<b>4,471,181</b>		<b>5,083,402</b>	<b>3,858,960</b>

### f) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates has been advised by the Pension Fund Actuary, as a sensible level to indicate interest rate sensitivity.

The analysis in the following table assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits, of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

Value at 31 March 2018	Potential change +/- 100 BPS	Value on Increase	Value on Decrease	Asset class exposed to interest rate risk	Value at 31 March 2019	Potential change +/- 100 BPS	Value on Increase	Value on Decrease
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
111,781	-	111,781	111,781	Cash at Custodian and Investment Managers	101,049	N/A	101,049	101,049
14,585	-	14,585	14,585	Cash held by Administering Authority	23,161	N/A	23,161	23,161
1,618,033	287,458	1,330,575	1,905,490	Bond (pooled funds)	1,721,002	298,339	1,422,663	2,019,341
<b>1,744,399</b>	<b>287,458</b>	<b>1,456,941</b>	<b>2,031,857</b>	<b>Total</b>	<b>1,845,211</b>	<b>298,339</b>	<b>1,546,872</b>	<b>2,143,551</b>

## Notes to the Local Government Pension Fund Accounts

Value at 31 March 2018	Potential change +/- 100 BPS	Value on Increase	Value on Decrease	Income source exposed to interest rate risk	Value at 31 March 2019	Potential change +/- 100 BPS	Value on Increase	Value on Decrease
£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s
808	8	816	800	Cash at Custodian and Investment Managers	192	2	194	190
53	5	58	48	Cash held by Administering Authority	138	1	141	137
<b>861</b>	<b>13</b>	<b>874</b>	<b>848</b>	<b>Total</b>	<b>331</b>	<b>3</b>	<b>335</b>	<b>237</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

The Pension Fund's bond holdings are held in accumulation funds where income is retained and automatically reinvested rather than being distributed to the Pension Fund. Income earned from these funds is therefore excluded from the analysis above.

### g) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2019, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £2,353,805,010 and £9,341,067 cash denominated in currencies other than sterling.

The Pension Fund Actuary has advised that the one year expected standard deviation for an individual currency at the 31 March 2019 is 10% (10% at 31 March 2018). This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Pension Fund is given in the following table together with the prior year comparator.

Asset Class	Value as at 31 March 2019	Potential market movement +/-10%	Value on Increase	Value on Decrease
	£000s	£000s	£000s	£000s
Overseas Equity	433,642	43,364	477,006	390,278
Overseas Property	167,675	16,767	184,442	150,907
Overseas Unitised Insurance Policies	827,943	82,794	910,737	745,149
Overseas Unit Trusts	283,651	28,365	312,016	255,286
Overseas Private Equity	143,294	14,329	157,623	128,964
Overseas Managed Funds	497,601	49,760	547,361	447,841
Foreign currencies	9,341	934	10,275	8,407
<b>Total</b>	<b>2,363,146</b>	<b>236,315</b>	<b>2,599,461</b>	<b>2,126,831</b>

## Notes to the Local Government Pension Fund Accounts

Asset Class	Value as at 31 March 2018	Potential market movement +/-10%	Value on Increase	Value of Decrease
	£000s	£000s	£000s	£000s
Overseas Equity	387,666	38,767	426,433	348,900
Overseas property	142,738	14,274	157,012	128,464
Overseas unit trusts	917,058	91,706	1,008,764	825,353
Overseas managed funds	784,026	78,403	862,429	705,623
Foreign currencies	12,260	1,226	13,486	11,034
<b>Total</b>	<b>2,243,749</b>	<b>224,375</b>	<b>2,468,123</b>	<b>2,019,374</b>

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. See Note 9 for further information.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

### Note 16: Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2019 and 31 March 2018 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 2018		31 March 2019
£m		£m
5,576	Present value of promised retirement benefits	6,237

Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2016 and therefore do not take account of any changes in membership since the valuation date. The liability at 31 March 2019 is estimated to comprise of £2,876 million with respect to employee members, £1,445 million with respect to deferred members and £1,916 million with respect to pensioners. The principal assumptions used by the Pension Fund Actuary were:

31 March 2018		31 March 2019
<b>Financial assumptions</b>		
2.4% per annum	Inflation/pension increase rate	2.5% per annum
2.5% per annum	Salary increase rate	2.6% per annum
2.7% per annum	Discount rate	2.4% per annum
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners:		
22.5	• Men	22.5
24.9	• Women	24.9
Longevity at 65 for future pensioners:		
24.1	• Men	24.1
26.7	• Women	26.7

Allowance has been made for future pensioners to elect to exchange 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

## Notes to the Local Government Pension Fund Accounts

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 2018 and 31 March 2019 were:

Change in assumptions for the year ended 31 March 2019	£m	%
0.5% decrease in discount rate	622	10%
0.5% increase in salary increase rate	76	1%
0.5% increase in pensions increase rate	510	8%
<b>Total increase in liabilities due to changes in assumptions</b>	<b>1,208</b>	<b>19%</b>

The assumptions used by the Pension Fund Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice on Local Authority Accounting 2018/19. The liability set out in the table above is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in Note 17.

### Note 17: Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years. The last actuarial valuation of the Pension Fund was carried out as at 31 March 2016 to determine contribution rates for the financial years 2017/18 to 2019/20, with the new rates effective from 1 April 2017. A copy of the 2016 Valuation Report is accessible from the Pension Fund website: [www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx](http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx).

The market value of the Pension Fund's assets at the valuation date was £3,584 million and represented 91% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities.

The main actuarial assumptions were as follows:

<b>Discount rate</b>	<b>4.0%</b>
<b>Salary increases</b>	<b>2.2%</b>
<b>Price inflation/pension increases</b>	<b>2.1%</b>

Further information can be found in the Funding Strategy Statement and the 2016 Valuation Report available on the Pension Fund's website: <http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>.





# Notes to the Local Government Pension Fund Accounts

## Note 20: Contingent Liabilities and Contractual Commitments

### Contingent Liabilities

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements. Court of Appeal judgements were made in cases affecting judges pensions (McCloud case) and firefighter pensions (Sergeant case) which had previously been considered by employment tribunals. The rulings have implications for the LGPS, Police and Fire Schemes since similar reforms were implemented.

The indication from Government is that they are currently seeking permission to appeal this decision, with an unknown timeframe for this permission to be granted or denied. Whether the appeal progresses or not is expected to impact upon the valuation of liabilities associated with the pension scheme.

The Government Actuary's Department (GAD) is preparing an assessment of the potential impact on a LGPS England & Wales scheme wide basis, which will set out the potential impact on scheme liabilities and service cost.

### Contractual Commitments

At 31 March 2019, the Pension Fund had a contractual commitment of a further £504.8 million (£271 million at 31 March 2018) to private equity limited partnerships, private equity funds within the Global Alternatives Fund, infrastructure debt funds and private rental sector funds, based on exchange rates applicable at the balance sheet date.

## Note 21: Contingent Assets

### a) Withholding tax reclaims

The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in France and Germany.

The Pension Fund's claims are set out in the following table in both euros and sterling (calculated using exchange rates as at 31 March 2019). The claims are subject to legal processes but based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

Country	Euro Value at 31 March 2019	Sterling Value at 31 March 2019
	€ 000s	£ 000s
Germany	148	128
France	191	164
<b>Total</b>	<b>339</b>	<b>292</b>

### b) Bonds

26 admitted bodies in the Pension Fund held bonds as surety to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## Note 22: Investment Strategy Statement

Regulation 7 of the Local Government Pension Fund Regulations 2016 (Management and Investment of Funds) set out a requirement for funds to formulate and publish a new Investment Strategy Statement (ISS) no later than 1<sup>st</sup> April 2018. The Hertfordshire Pension Fund published its ISS on 31<sup>st</sup> March 2018, and it can be found on the Fund's website: <http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>.

# **Firefighters' Pension Fund Accounts**

# Firefighter's Pension Fund

## Fund account for year ended 31 March 2019

2017/18 £000s		Note	2018/19 £000s
	<u>Contributions receivable</u>		
	From employer:		
(2,733)	- contributions in relation to pensionable pay		(2,696)
(41)	- ill health early retirements		(41)
	From members:		
(2,168)	- Firefighters' contributions		(2,208)
<b>(4,942)</b>	<b>Total - Contributions receivable</b>	<b>3</b>	<b>(4,945)</b>
	<u>Transfers in</u>		
(49)	- from other authorities	4	(20)
<b>(49)</b>	<b>Total - Transfers in</b>		<b>(20)</b>
	<u>Benefits payable</u>		
10,304	- pensions		11,072
2,610	- commutations and lump sum retirement benefits		3,964
-	- lump sum death benefits		-
-	- other (GAD vs Milne)		-
<b>12,914</b>	<b>Total - Benefits payable</b>		<b>15,036</b>
	<u>Payments to and on account of leavers</u>		
-	- refunds of contributions		-
-	- transfers out to other authorities	4	-
<b>-</b>	<b>Total - Payments to and on account of leavers</b>		<b>-</b>
	Deficit for the year before top-up grant receivable from central Government		10,071
7,923	Top-up grant payable by central Government	5	(10,071)
<b>(7,923)</b>			<b>(10,071)</b>
<b>-</b>			<b>-</b>

## Net assets statement as at 31 March 2019

2017/18 £000s		2018/19 £000s
	<b>Current assets</b>	
1,536	Top-up grant receivable from central Government	3,398
<u>1,536</u>		<u>3,398</u>
	<b>Current liabilities</b>	
(1,536)	Amount owing to the General Fund	(3,398)
<u>(1,536)</u>		<u>(3,398)</u>
<b>-</b>	<b>Net Assets</b>	<b>-</b>

Scott Crudgington  
Director of Resources  
Date 31 May 2019

# Firefighter's Pension Fund

## Summary of the Firefighters' Pension Fund Operations

The Firefighters' Pension Fund was established under the Firefighters' Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the council was responsible for paying the pensions of its former firefighting employees on a 'pay-as-you-go' basis. This meant that employees' contributions were paid into the council's accounts from which pensions awards were made and the council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2011, the council has continued, through its scheme administrator, London Pensions Partnership (LPP) (previously London Pensions Fund Authority (LPFA)), to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes.

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters' Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. On 1st April 2015, a new 2015 Firefighters' Pension Scheme came into effect. The two previous Schemes (Firefighters' Pension Scheme 1992 and Firefighters' Pension Scheme 2006) continue in force for firefighters who were serving before that date and who are eligible to remain members of their earlier Scheme.

In 2015, the Modified Retained Pension Scheme was also introduced which gave retained firefighters employed between 1 July 2000 and 5 April 2006 inclusive the opportunity to pay historic contributions and buy back their service for this period. The Modified Retained scheme does not constitute a scheme on its own but rather a modified section of the 2006 scheme with different benefits.

The new financial arrangements are for the 1992, 2006 and 2015 Firefighters' Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters' Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

## Accounting Policies

The accounts have been prepared in accordance with the 2012 Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters' Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2019.

## 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.

## Firefighter's Pension Fund

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme, the 2006 Firefighters' Pension Scheme and the 2015 Firefighters' Pension Scheme, as shown below.

	Employer %	Employee %
<b>1992 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £15,609	21.7	11.0
More than £15,609 and up to and including £21,852	21.7	12.2
More than £21,852 and up to and including £31,218	21.7	14.2
More than £31,218 and up to and including £41,624	21.7	14.7
More than £41,624 and up to and including £52,030	21.7	15.2
More than £52,030 and up to and including £62,436	21.7	15.5
More than £62,436 and up to and including £104,060	21.7	16.0
More than £104,060 and up to and including £124,872	21.7	16.5
More than £124,872	21.7	17.0
<b>2006 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £15,609	11.9	8.5
More than £15,454 and up to and including £21,852	11.9	9.4
More than £21,852 and up to and including £31,218	11.9	10.4
More than £31,218 and up to and including £41,624	11.9	10.9
More than £41,624 and up to and including £52,030	11.9	11.2
More than £52,030 and up to and including £62,436	11.9	11.3
More than £62,436 and up to and including £104,060	11.9	11.7
More than £104,060 and up to and including £124,872	11.9	12.1
More than £124,872	11.9	12.5
<b>2015 Firefighters' Pension Scheme</b>		
<b>Pensionable Pay Band</b>		
Up to and including £27,818	14.3	11.0
More than £27,818 and up to and including £51,515	14.3	12.9
More than £51,515 and up to and including £142,500	14.3	13.5
More than £142,501	14.3	14.5

Contributions received by the Fund are analysed below.

	Employer		Employee	
	2017/18 £000s	2018/19 £000s	2017/18 £000s	2018/19 £000s
<b>1992 Firefighters' Pension Scheme</b>	1,115	762	735	516
<b>2006 Firefighters' Pension Scheme</b>	33	15	28	12
<b>2015 Firefighters' Pension Scheme</b>	1,585	1,919	1,396	1,680
<b>Modified Retained – Service Buy Back</b>	-	-	9	-
	<b>2,733</b>	<b>2,696</b>	<b>2,168</b>	<b>2,208</b>

# Firefighter's Pension Fund

## III-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the council will be required to make a payment into the pension fund.

Contributions received by the Fund are analysed below.

	Employer	
	2017/18 £000s	2018/19 £000s
<b>1992 Firefighters' Pension Scheme</b>	<u>41</u>	<u>41</u>
	<b>41</b>	<b>41</b>

Ill health charges in 2018-19 and 2017-18 consist of £41k in higher tier.

## Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

## Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters' Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Home Office from 1st April 2016 (previously Department for Communities and Local Government). Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

## Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2019, which are disclosed separately in Note 37 of the main HCC accounts.

# Glossary

# Glossary

This glossary is intended to provide the reader with a clear and concise explanation of the technical terms used in this report.

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

## **Accrual Accounting**

The inclusion of income and expenditure within the accounts for the financial year in which they are earned or incurred, not when the money is received or paid.

## **Actuarial Gains and Losses**

For defined benefit pension schemes, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

## **Agency Services**

Services that are performed by or for another Authority or Public Body, where the principal, the authority responsible for the service, reimburses the agent, the authority carrying out the work, for the cost of the work carried out.

## **Amortised Cost Using the Effective Interest Rate Method**

The amortised cost using the effective interest rate method applies to both financial assets and liabilities carried at amortised cost. It is a method of determining, from the expected cash flows, the balance sheet carrying amount of such assets and liabilities and the periodic charges or credits to the Income and Expenditure Account of a financial instrument.

## **Asset**

An item that has value owned by the council. Examples would be land, buildings and stocks.

## **Balance Sheet**

This provides a summary of all the assets and liabilities of the council, bringing together all the accounts of the council except the Pension Fund and various Trust Funds whose assets are not at the disposal of the council.

## **Billing Authority**

The local authority responsible for collecting the Council Tax from residential properties in their area. In Hertfordshire this is the responsibility of the Borough and District Councils.

## **Budget**

A statement of the council's policy expressed in financial terms. This includes both revenue and capital expenditure.

## **Capital Adjustment Account**

The opening balance on this account represents the combined total of the Fixed Asset Restatement Account and the Capital Financing Account which were replaced at 1 April 2007. From 2007/08 the movements on the Capital Adjustment Account reflects financing of capital expenditure from revenue and capital resources, together with the reversal of amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.

## **Capital Expenditure**

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

## **Capital Financing Requirement**

The amount of money the council would need to borrow to finance its capital expenditure. The Minimum Revenue Provision in relation to this debt is calculated with reference to estimated life of the asset for which borrowing is undertaken at the end of the preceding financial year.



# Glossary

## **Capital Receipts**

The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay outstanding debt on fixed assets or finance capital expenditure within rules set down by government. Capital receipts however cannot be used to finance revenue expenditure.

## **Capital Receipts Reserve**

Contains the proceeds from the sale of fixed assets that are available to either finance capital expenditure or repay debt.

## **Carry Forwards**

These are underspends at the year-end which Members and officers, under delegated powers, have agreed to carry forward to the next year to support that year's expenditure plans.

## **CIPFA**

Chartered Institute of Public Finance and Accountancy. The principal accounting body dealing with local government finance.

## **Code of Practice on Local Authority Accounting**

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

## **Collection Fund**

A fund administered by each billing authority. Council Tax monies are paid into the fund whilst part of the net revenue expenditure of the council is met from the Collection Fund.

## **Component Accounting**

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

## **Comprehensive Income & Expenditure Account**

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

## **Consistency**

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## **Constructive Obligation**

An obligation that derives from a council's actions, where by an established pattern of past practice, published policies or a sufficiently specific current statement, the council has indicated to other parties that it will accept certain responsibilities, and as a result, the council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## **Contingent Liability**

A potential liability at the balance sheet date, the outcome of which is uncertain, as it is dependent on a future event.

## **Corporate and Democratic Core**

Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those that would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

# Glossary

## **Council Tax**

A property based tax that is administered by District, Borough and Unitary Councils.

## **Creditors**

Amounts owed by the council at the balance sheet date for goods and services supplied. This will include receipts in advance that have not been applied at the balance sheet date.

## **Current Asset**

An asset that is realisable or disposable within one year.

## **Current Liability**

Amounts that are due to be settled within one year.

## **Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liability expected to arise from employee service in the current period.

## **Curtailment**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's services earlier than expected; and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

## **Debtors**

Amounts due to the council at the balance sheet date.

## **Deferred Credits**

Capital income potentially due to be received in future periods.

## **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or un-funded (including notionally funded).

## **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

## **Depreciated Replacement Cost**

The method employed in valuing land and buildings where a market value basis is not readily available.

## **Depreciation**

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

## **Discretionary Benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the council's discretionary powers such as The Local Government (Discretionary Payments) Regulations 2006.

## **Doubtful Debts**

A provision made by the council based on age and particular circumstances relating to amounts owed to the council.

# Glossary

## **Earmarked Reserves**

Sums set aside to meet revenue or capital expenditure needs in the future. Reserves offer the scope for greater flexibility in financing future expenditure.

## **Emoluments**

Amounts paid to employees, including expenses or non-monetary benefits that are taxable.

## **Estimation Techniques**

The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

## **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the council, and which need to be disclosed separately by virtue of their size or incidence in order to give fair presentation of the accounts.

## **Exit Packages**

All relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

## **Extraordinary Items**

Material abnormal items which derive from events or transactions that fall outside the ordinary activities of the council and which are not expected to recur.

## **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## **Fees and Charges**

Income raised by charging users of services for the facilities. For example, the supply of school meals and home help.

## **Financial Asset**

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

## **Financial Instrument**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

## **Finance Lease**

Arrangements whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

## **Financial Liability**

A financial liability is an obligation to transfer economic benefits controlled by the council, either by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the council.

## **Formula Grant**

Central Government provides funding to local authorities through a general grant known as Formula Grant, made up of Revenue Support Grant and Re-distributed Business Rates, in support of its general revenue expenditure.

## **Foundation School**

A school that receives funding from the council but owns its land and buildings.

## **General Fund Balance**

The excess to date of income over expenditure in the Income and Expenditure Account.

# Glossary

## **Going Concern**

The concept that the council will remain in operational existence for the foreseeable future. Income and expenditure accounts and the balance sheet are produced on the basis that there is no intention to curtail significantly the scale of operations.

## **Government Grants**

Assistance by government and inter-government agencies and similar bodies. When applied, revenue grants are credited to the appropriate service revenue account.

## **Heritage Assets**

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities, that is held and maintained principally for its contribution to knowledge and culture.

## **Historical Cost**

The value of capital expenditure originally incurred.

## **International Financial Reporting Standards**

The Code of Practice is the first to be based on International Financial Reporting Standards and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

## **Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

## **Infrastructure Assets**

Assets such as highways, footpaths and railways, whose value is through continued use i.e. there is no prospect of sale or alternative use.

## **Intangible Assets**

Non-monetary assets that do not have physical substance and which provide future economic benefits or service potential.

## **Investments (Non-Pensions Fund)**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the council. Investments, other than those in relation to the Pension Fund, that do not meet this criterion are classified as current assets.

## **Investments (Pensions Fund)**

The investments of the Pension Fund will be accounted for in the statements of that Fund. FRS17 Retirement Benefits requires authorities to disclose their attributed share of pension scheme assets.

## **LASAAC**

Local Authority (Scotland) Accounts Advisory Committee

## **Liquid Resources**

Current asset investments that are readily disposable by the council without disrupting its business and are readily convertible to known amounts of cash.

## **Long Term Borrowing**

Loans repayable more than one year after the balance sheet date.

## **Long Term Contracts**

A contract entered into for the provision of a service where the time taken to complete the contract is such that the contract falls into different accounting periods.

## **Long Term Debtors**

Amounts due to the council more than one year after the balance sheet date.

## **Minimum Revenue Provision**

An amount that the council is required to charge to the general fund, to provide for the repayment of debt related to capital expenditure.

# Glossary

## **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

## **National Non-Domestic Rates**

A rate in the pound, set by Central Government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes.

## **Net Book Value**

The amount at which fixed assets are included in the balance sheet. This would be either the asset's historic cost or current value less the cumulative amount provided for depreciation.

## **Net Current Replacement Cost**

The cost of replacing an asset in its existing condition and its existing use.

## **Net Debt**

For cash flow statement presentation purposes, net debt comprises the council's borrowings plus bank overdrawn positions less positive bank and cash balances, short and long term investments.

## **Non Distributed Costs**

Costs that cannot be directly attributed to services.

## **Net Interest on the Net Defined Liability**

The change during the period in the net defined benefit liability (asset) that arises from the passage of time. The net interest on the net defined liability (asset) comprises the interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling

## **Operating Lease**

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the lessor.

## **Overhanging Discounts and Premiums**

Discounts or premiums occurring as a result of debt restructuring that cannot be linked with the replacement loan.

## **Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## **Pension Fund**

An employees' pension fund maintained by a council, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

## **Post Balance Sheet Events**

Events both favourable and unfavourable that occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

## **Precept**

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council Tax and Business Rates payers on their behalf.

## **Precepting Authorities**

Those authorities which are not billing authorities (i.e. do not collect Council Tax and Business Rates). County Councils, Police Authorities and Joint Authorities are 'major precepting authorities' and Parish, Community and Town Councils are 'local precepting authorities'.

## **Prior Period Adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

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## **Private Finance Initiative**

The private finance initiative provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. In return the private sector receives payment linked to performance in meeting agreed standards of provision.

## **Projected Unit Method**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

## **Provisions**

Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

## **Prudence**

The concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate realisation of which can be assessed with reasonable certainty.

## **Public Works Loan Board**

A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

## **Rateable Value**

Rateable value of a property is based on an assessment of the annual rental value for non-domestic property. Rateable value multiplied by the rate in the £ levied equals the rate payments for the year.

## **Related Parties**

For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

## **Related Party Transaction**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## **Resources and Performance**

A directorate of the council which contains the services organised on a corporate basis that support the delivery of services to the public.

## **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

## **Return on plan assets, excluding amounts included in net interest on the net defined liability**

This is defined as interest, dividends and other income derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less:

- any costs of managing plan assets, and

# Glossary

- any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

## **Revaluation Reserve**

Gains and losses on an individual asset basis arising from revaluations are reflected within the Revaluation Reserve.

## **Revenue Contingency**

A sum set-aside for future pay and price increases.

## **Revenue Contributions to Capital Outlay**

Contributions from revenue to finance capital expenditure.

## **Revenue Expenditure and Income**

This is expenditure on day-to-day running costs and consists primarily of salaries and wages, premises related costs and supplies and services. Revenue income will include fees and charges and service specific grants.

## **Revenue Expenditure Funded from Capital under Statute**

Expenditure which does not result in, or remain matched with, assets controlled by the council.

## **Revenue Support Grant**

A grant paid by central government in aid of local authority services in general, as opposed to specific grants, which may only be used for a specified purpose.

## **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method, reflect the benefits that the employer is committed to provide for service up to the valuation date.

## **Settlement**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## **Service Reporting Code of Practice**

The Code that establishes 'proper practices' with regard to consistent financial reporting for services.

## **Short Term Borrowing**

Loans repayable within one year of the balance sheet date.

## **Short Term Investments**

Deposits with approved financial institutions which, when placed, had a maturity date of less than one year.

## **Soft Loans**

Loans made for policy reasons that are interest free or at rates below prevailing market rates.

## **Specific Grants**

Government grants to local authorities in aid of particular projects or services.

## **Statement of Standard Accounting Practice**

A statement of accounting practice issued by the Accounting Standards Board.

## **Total Cost**

The total cost of providing a service, including an appropriate share of all support services and overheads.

# Glossary

## **Transfer Value**

The value of an employee's pension rights when transferring from one pension scheme to another.

## **Useful Life**

The period over which the council will derive benefits from the use of a fixed asset.

## **Vested Rights**

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses, civil partners or other dependants.



# **Annual Governance Statement**

# Annual Governance Statement

## 1. Background

The Accounts and Audit Regulations (2015) require that Hertfordshire County Council prepare an annual governance statement to accompany its Annual Financial Report.

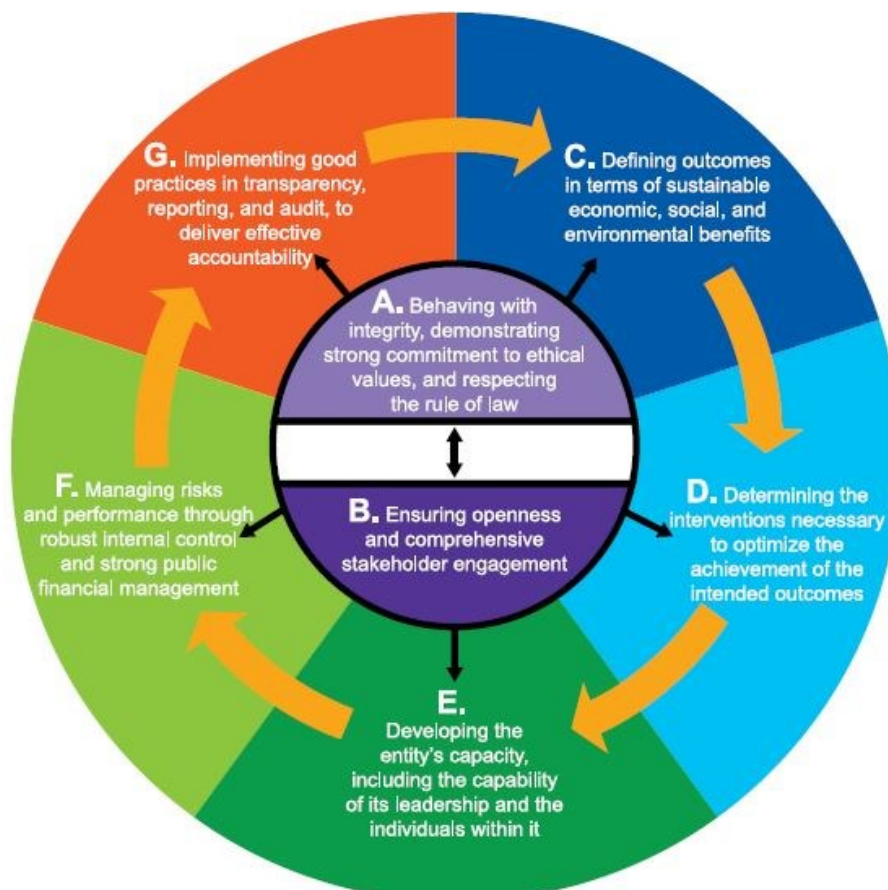
The term 'governance' generally refers to the arrangements put in place to ensure that intended outcomes are defined and achieved.

## 2. The Code of Corporate Governance

Hertfordshire County Council's Code of Corporate Governance is available on the council's website ([www.Hertfordshire.gov.uk](http://www.Hertfordshire.gov.uk)) and can be found under the "[Who we are and what we do](#)" section.

The code sets out how the council complies with the governance principles set out in 'Delivering Good Governance in Local Government (2016)' a document compiled as part of a joint initiative between the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

The principles and the way they integrate are set out in the international framework infographic below:



# Annual Governance Statement

## 3. The Governance Framework

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

In doing this, the council is responsible for putting in place proper arrangements for the governance of its affairs as well as ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Hertfordshire County Council Governance Framework comprises both the systems and processes and the culture and values through which it directs and controls its operations, as well as the mechanisms through which it engages with and leads the community.

This framework is designed to enable the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

## 4. Key Elements of The Governance Framework

The Governance Framework summarised in this Statement has been in place at the council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts. Some of the key elements of the council's governance framework are described below.

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

The council's most recent **Corporate Plan** covers the period 2017-2021 and sets out a vision for Hertfordshire to remain a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. It outlines four cross-cutting themes that include key priorities for the County.

The four themes are:

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

The **Integrated Plan** provides the associated financial and human resource plans together with information on how the council achieves value for money in the provision of services, and the treasury management strategy. The Integrated Plan is developed through a robust review and challenge process involving both Cabinet Panels and Scrutiny.

The council utilises a system of all-party **Cabinet Panels** to consider policy development for each service area.

The council publishes an **Annual Report** which summarises significant developments and achievements for the period. The report sets out how the council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year. The document also reinforces Hertfordshire County Council's commitment to working with

# Annual Governance Statement

communities and providing services through methods of delivery that demonstrate its values and behaviours.

The council has well-established **Scrutiny Arrangements** which act to hold the Executive to account by scrutinising decisions made by, or on behalf of the council or Cabinet and any operational or policy aspect of the council's business. Additionally, the council's Health Scrutiny Committee considers strategic countywide health matters. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the council's control. Full details of the topics under scrutiny can be accessed on the council's website. Progress on the implementation of agreed scrutiny recommendations is monitored regularly.

Hertfordshire Forward is the local strategic partnership which brings together all the key agencies in the county to improve the quality of life and wellbeing of Hertfordshire residents. Originally there were three elements to Hertfordshire Forward: the Assembly, the Strategy Group and the annual conference. In 2018, the decision was taken to cease the Assembly and the Strategy Group, as partnership working across Hertfordshire has developed considerably since the Assembly was established in 2013. We have much stronger and more active partnership working across all sectors and there is a risk of duplication of effort in organising events. Hertfordshire County Council remains strongly committed to partnership engagement. We recognise the importance of bringing all partners from across the county together to collectively discuss the key issues facing us all and the strategic partnerships approach to tackling these and will continue to hold an annual conference.

The 2018 conference **Building Hertfordshire: fit for the future** was held on Wednesday 19 September 2018 at Rothamsted Conference centre, Harpenden with attendance nearing 90 partners from across the county. The theme was **Growth and the Local Industrial Strategy** and delegates considered the significant growth in housing and jobs planned for the county over the next fifteen years. As part of this, work is underway by the Hertfordshire Local Enterprise Partnership to develop a Local Industrial Strategy for the county. The growth presents an opportunity to shape the future of Hertfordshire – not least through the Local Industrial Strategy for the county and this annual conference provided an excellent opportunity for partners from all sectors to input into building a Hertfordshire fit for the future.

The council has **Integrated Strategic and Service Level Performance Reporting** processes, which facilitate continuous improvement and identify and support early identification and rectification of any service delivery issues.

These arrangements are supported by the council's **Performance Management and Development Scheme** through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is underpinned by the **Staff Development Charter** which provides a framework for assessing and meeting the learning and development needs of officers. The council has adopted a set of **Values and Behaviours** to reinforce what is expected of employees and managers.

There is an on-going **Councillor Development Programme** to support them in all their roles, with dedicated learning and development support and a system of deputy Cabinet members that facilitates succession planning. Work to support Councillors in their local work is part of the council's approach to localism; this has included development of an IT portal to provide Councillors with ready access to a wide range of information about their local communities and Hertfordshire more widely.

The council's systems of **Internal Control** are a significant part of the Governance Framework and are designed to manage risk to a reasonable level however they cannot eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control is based around an on-going process designed to:

- Identify and prioritise the risks to the achievement of the council's policies, aims and objectives;
- Evaluate the likelihood of those risks being realised and the impact should they be realised; and
- Manage them efficiently, effectively and economically.

# Annual Governance Statement

The council has a well-developed **Risk Management Strategy** and **Embedded Risk Monitoring Processes**, which operate at the highest levels of the organisation and are overseen by the council's Audit Committee. The risks associated with meeting budget targets are also considered as part of the integrated planning process and then monitored in quarterly reports to Cabinet.

The council has designated the Director of Resources as **Senior Information Risk Owner** and the Information Governance Unit and the IT Security Team provide advice and guidance on this area.

The council has an **Anti-Fraud and Corruption Strategy** setting out its commitment to prevent and detect fraud and corruption.

The council has a **Whistleblowing Policy** which clearly sets out arrangements in place for reporting and investigating any concern relating to a deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.

The council has continued to maintain **Equality and Diversity** at the forefront of its service delivery and employment practices. The council annually publishes evidence of its progress against the objectives contained in its **Equality Strategy** to demonstrate to the public of Hertfordshire, how it intends to continue to meet the needs of all of Hertfordshire's communities. Equality impact assessments assess the impact of policies and proposals upon council employees and service users and a cumulative impact assessment is carried out as part of the integrated planning process.

The council's **Website** includes: facilities that allow members of the public to submit complaints relating to the various directorates; mechanisms for reporting suspected fraud and corruption (anonymously if required); and access to information on current consultations, petitions etc.

## 5. Review of Effectiveness

Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of local governance arrangements, including the system of internal control. The review of effectiveness is informed by: the work of the senior managers within the council who have responsibility for the development and maintenance of the governance environment; the Head of Assurance's Annual Report; and also by comments made by External Audit and other review agencies and inspectorates.

The preparation and publication of the **Annual Governance Statement** in accordance with 'Delivering Good Governance in Local Government Framework (2016)' fulfils the statutory requirement for the annual review of the effectiveness of systems of internal control and also meets the requirement for 'preparation in accordance with proper practice'.

The Cabinet, on behalf of the council, charges the **Audit Committee** with keeping the effectiveness of the council's systems for internal control under review. At its quarterly meetings the Audit Committee receives and considers reports on the council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the council. The Audit Committee approves the **Internal Audit Plan of Work** and receives regular updates on progress against the plan as well as copies of the final reports for individual reviews. The Audit Committee considers the overall annual opinion on internal control provided by the Shared Internal Audit Service along with the opinions on the council's accounts provided by **External Audit**.

The **Head of Assurance's Annual Report** on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the council's system of internal control in respect of its financial and non-financial systems.

The overall assurance opinions for both areas of internal control are set out in the tables below which also detail the opinions for the two elements of the control systems these being: the design of the control (that it is fit for purpose) and the operation of the control (that it is being complied with).

# Annual Governance Statement

<b>A. Financial Systems</b>			
<b>Overall Assurance Opinion</b>	<b>Element</b>	<b>Opinion</b>	<b>Definition of Opinion</b>
<b>Satisfactory Assurance</b>	Design of Control	Satisfactory Assurance	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements
	Operation of Control	Satisfactory Assurance	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements

<b>B. Non-Financial Systems</b>			
<b>Overall Assurance Opinion</b>	<b>Element</b>	<b>Opinion</b>	<b>Definition of Opinion</b>
<b>Limited Assurance</b>	Design of Control	Satisfactory Assurance	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements
	Operation of Control	Limited Assurance	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.

When considering these opinions it should be noted that in 2018/19 the Shared Internal Service moved from a five tier assurance opinion matrix (Full, Substantial, Moderate, Limited and No Assurance) to one that contains four tiers (Good, Satisfactory, Limited and None).

The council ensures corporate ownership of the Annual Governance Statement through requiring members of its Joint Leadership Team to complete a **Service Assurance Statement** covering the controls in place in their service areas. The statement provides assurance that they have reviewed arrangements for meeting their responsibilities in relation to having:

# Annual Governance Statement

- Plans that set out how corporate objectives and other legal and regulatory; requirements are to be achieved;
- Adequate arrangements for monitoring performance;
- Adequate resource in both number and skills to deliver service objectives;
- Appropriate risk management arrangements in place;
- Arrangements for ensuring that agreed recommendations resulting from internal audit, external audit or other inspectorate work are implemented;
- Procedures that ensure timely responses to all types of query and complaint;
- Processes that ensure compliance with relevant legislation
- Partnership arrangements that are well founded, clearly defined and adequately;
- Mechanisms for ensuring staff are aware of the HCC's Values and Behaviours; its Code of Conduct and related policies e.g. whistleblowing, equalities etc.; and
- Business continuity plans that are communicated to staff as necessary.

A draft version of the Annual Governance Statement is considered at Strategic Management Board and scrutinised by the Audit Committee at its meeting in May, prior to signing by the Chief Executive and Leader of the Council.

## 6. Activities Involving Group Governance

The council has varying stakes in a variety of trading entities which are listed below:

- Herts Living Limited - this company is wholly owned by the council. The County Council has appointed a private sector partner to enter a joint venture partnership with Herts Living Limited under the name Chalkdene Developments LLP; the partnership aims to build new homes as well as community and ancillary buildings in the County over the next 15 years.
- Herts for Learning Limited - is a schools company of which the council has a 20% stake; it operates to provide support services to education providers.
- Hertfordshire Catering Limited - this company is wholly owned by the council and provides catering services to Colleges, Academies and Schools.
- Herts FullStop (formerly Surecare Supplies Limited) - this company is wholly owned by the council. It provides a wide variety of equipment and supplies to non-profit making groups and to private businesses who predominately service the care and education sectors.
- Libraries for Life - In October 2018 the County Council agreed to establish a Public Service Mutual (PSM) a company that will be limited by guarantee and a registered charity. Once fully established the PSM will tender for the contract to deliver Hertfordshire Library Services in 2019/20.

Oversight of governance arrangements for the above entities is provided by either: a dedicated Audit Committee e.g. for Hertfordshire Catering Limited or through the inclusion of council Officers on the relevant Board of Directors. The council will be provided with further assurance in respect of these governance activities when an internal audit review of the arrangements currently in place is carried out as part of the 2019/20 HCC Internal Audit Plan.

The Hertfordshire Local Enterprise Partnership (LEP) brings together representatives from local government, education and the business community. In Hertfordshire, the LEP operates as a voluntary partnership. For 2018/19 the council has maintained a dual role, as the 'Accountable Body' in regards to oversight of public money and also as a key partner involved in decision-making.

# Annual Governance Statement

## 7. Update on Significant Governance Issues identified in the 2017/18 Annual Governance Statement

The following table provides an update on the significant governance issues reported in the 2017/18 Statement; as some of the issues remain current this table should be considered alongside the items set out in Section 8 (below)

Item	Directorate	2017/18 Issue	2018/19 Update
7.1	<b>Environment &amp; Infrastructure</b>	The Highways service needs to contribute to the council's new approach to growth	<p>The Highways Implementation and Strategy Unit has been moved to the same Assistant Director team as the Growth Unit. This will enable more cohesive and joined up working (across Growth &amp; Highways) in the governance and development of the council's major development sites.</p> <p>The Service is also developing close partnership working with District Councils, including working from their sites on a weekly basis, so as to establish a new approach with regard to developing and implementing their Local Plans.</p>
7.2	<b>Community Protection</b>	<p>The council is awaiting a decision on the Police and Crime Commissioner's (PCC) bid to take over from HCC as the Fire Authority.</p> <p>As a result, replacement of the current Integrated Risk Management Plan (IRMP) for the Hertfordshire Fire and Rescue Service (HFRS) has been delayed.</p> <p>In addition, in the event of HFRS moving to the Hertfordshire Police and Crime Commissioner, there is uncertainty around governance arrangements for the parts of the Community Protection Directorate remaining within HCC.</p>	The PCC has suspended his business case in favour of a collaborative partnership with the County Council. This has been supported by the formation of a number of agreements and arrangements including a strategic board jointly chaired by the PCC and the Leader of the Council
7.3	<b>Adult Care Services</b>	Workforce and associated cost pressures, including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc.	A comprehensive adult social care workforce strategy was agreed by Cabinet in 2018 and is now being implemented. HCC also sit on the NHS Strategic Workforce Board and have convened a partnership board to enable partners to assist in the recruitment and retention challenge. Good Care Week and other recruitment campaigns have taken place and Herts Rewards has been extended to all Hertfordshire care workers regardless of employer to aid staff retention. The national recruitment campaign took place in February 2019 and we received heightened interest resulting in additional job offers. The



## Annual Governance Statement

Item	Directorate	2017/18 Issue	2018/19 Update
			workforce shortage remains a huge challenge and the risk of no-deal Brexit heightens this risk.
7.4	<b>Resources - Libraries</b>	Uncertainty around the future delivery model for Library Services with potential for it to be developed into a Mutual.	<p>There is ongoing uncertainty around the future delivery model for Hertfordshire Library Services. The County Council decided in October 2018 to commence a public procurement process for an independent provider to deliver the Library Service. This procurement process commenced in February 2019 and the result will not be known until the summer 2019.</p> <p>In October 2018 the county council also decided to establish a Public Service Mutual, a company limited by guarantee and registered charity, so that it can tender for the contract to deliver Hertfordshire Library Service</p>
7.5	<b>Resources - Finance</b>	<p>Ongoing financial risks in relation to:</p> <ul style="list-style-type: none"> <li>• Demand for services, particularly in the area of adult social care;</li> <li>• Significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement;</li> <li>• Proposed changes to business rates retention; and</li> <li>• The impact of the Fair Funding review on the distribution of resources.</li> </ul>	<p>Ongoing uncertainty in the timetable of key government initiatives continues to delay further progress on the spending review and in turn, the details of local government funding after April 2020.</p> <p>Savings continue to be delivered in line with plans and monitoring to SMB and Cabinet through the finance monitor reports is ongoing and was effective in 2018/19.</p> <p>Planning for further savings beyond 2019/20 has begun early in recognition of the savings required from April 2020 and the complex timetable of decisions from both a member and an officer perspective.</p> <p>The County Council continues to monitor the development of discussion and proposals relating to future funding and to make representation where appropriate.</p>
7.6	<b>Resources - Legal</b>	Requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited (HLL) and the associated joint property development arrangements.	The Strategic Assets Board has been established and it is important that as it commences to operate that the roles particularly of the Managing Director of HLL and that of any other officer who is also a director of HLL are understood. A Consultancy Agreement with HLL is nearing completion and this

# Annual Governance Statement

Item	Directorate	2017/18 Issue	2018/19 Update
			<p>should help clarify the position.</p> <p>Conflicts of interest advice has been produced but there is a need to work through this with officers so that they understand what it means in practice.</p> <p>The arrangements with Herts Living Limited and the joint venture arrangements are still being developed and it is essential that more legal and finance resource and senior property resource (not being a director of HLL) is dedicated to ensure that there is good governance in the arrangements and that the practical issues arising from the arrangements are worked through and properly documented. As mentioned above a consultancy agreement with HLL has been drafted and service level agreements between the County Council and HLL are being developed. A senior Herts Property officer needs clearly to take ownership of HLL and the JV arrangements- and as mentioned previously this cannot be any officer who is a director of HLL.</p>

## 8. Significant Governance Issues 2018/19

In addition to the updates on the matters referred to in Section 7 (above) the following issues have been raised as part of the 2018/19 review.

Item	Directorate	Issue	Action
8.1	<b>Council Wide</b>	The uncertainty around the United Kingdom's approach to its withdrawal from the European Union and the potential related impacts for the council and the services that it delivers.	<p>The council's Resilience Team has been co-ordinating a process to consider and document the potential risks across the council based on a range of Brexit scenarios and consider the mitigating actions.</p> <p>This process has involved liaisons with designated representatives within departments to establish their needs in areas of activity likely to be impacted by the withdrawal. In addition, departments have themselves been considering actions needed to address those nationally highlighted areas.</p>

## Annual Governance Statement

Item	Directorate	Issue	Action
8.2	<b>Adult Care Services</b>	Ensuring that the council contributes to the development of integrated care systems and alliances.	<p>The County Council is pro-actively engaging in activities that will allow it to contribute effectively to the development of integrated care provision.</p> <p>This includes:</p> <ul style="list-style-type: none"> <li>• Participation in the strategic partnership boards that govern joint working with Clinical Commissioning Groups,</li> <li>• Championing the contribution of social care and wider local authority services as part of the implementation of the Sustainability and Transformation Partnerships (STP) Health and Care Strategy, and</li> <li>• Working closely with the community NHS provider to ensure delivery of the national Learning Disabilities Mortality Review Programme.</li> </ul>
8.3	<b>Environment &amp; Infrastructure</b>	Ensuring that Hertfordshire contributes to the Growth Agenda	<p>The County Council has the lead role in supporting this evolving approach. The Growth Board is a new and developing strategic partnership across Hertfordshire that will lead the development of a dialogue with government and investment partners to provide funding for growth in the county.</p> <p>Work continues to develop effective approaches to governance, delivery and assurance across the partners in respect of bids made to the Housing Infrastructure Fund as they move from submission toward confirmation and subsequent mobilisation. This includes consideration of the risks to the council as the Accountable Body and ensuring delivery against the timescales agreed with Homes England.</p> <p>In addition, internal processes are being reviewed to ensure that they facilitate optimisation of securing support for new strategic infrastructure through the planning process.</p>
8.4	<b>Resources</b>	The Incorporation of the Hertfordshire Local Enterprise Partnership	<p>With the Local Enterprise Partnership establishing a separate incorporated body from 1 April 2019, in line with Government policy, the council will be reviewing its duties under the accountable body role to ensure that they are being effectively discharged.</p>

## Annual Governance Statement

Item	Directorate	Issue	Action
8.5	<b>Council Wide</b>	Governance of County Council Owned Trading Companies	<p>With the council continuing to develop alternative delivery models it will continue to review the associated governance arrangements to ensure that the structures, including the responsibilities of nominated directors, can be scaled up, or revised as necessary and are subject to appropriate oversight.</p> <p>Further training will be provided to ensure that the Directors of County Council owned companies understand their responsibilities and understand how to identify and deal with potential conflicts of interests</p>

### 9. Specific Areas for Improvement and Development 2018/19

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

Item	Directorate	Area for Improvement & Development	Proposed Action
9.1	<b>Council Wide</b>	During the year there have been a number of audit reviews, including some that cover council wide activities e.g. lone working, safe recruitment, that have resulted in limited assurance opinions allied to high priority recommendations.	We will continue to strengthen the arrangements in place for ensuring that key audit outcomes are communicated to, and supported by, the County Council's Strategic Management Board and Cabinet Members. This, along with the continuation of quarterly reporting of control matters to Directorate Boards and the Audit Committee's right to call officers to the Committee to account for around the implementation of recommendations, will further enhance the council's control environment.
9.2	<b>Community Protection</b>	Development of the Integrated Risk Management Plan (IRMP) was delayed due to the potential for a change in governance based around the PCC's bid to take over from the County Council as a Fire Authority.	A new IRMP has been produced and has recently completed its public consultation phase. Shortly, this will have any appropriate amendments made based upon the feedback received and pass through the final phases of the political process for publication, which is expected early July 2019.
9.3	<b>Adult Care</b>	Forecast and Analysis of Social Care Payments	With the accurate forecasting and analysis of care spend an essential element of the Services Department's budgetary

## Annual Governance Statement

Item	Directorate	Area for Improvement & Development	Proposed Action
	<b>Services</b>		control regime; it will amend the mechanism for processing care payments so that they are made via the ContrOCC System thereby enhancing its ability to more effectively carry out these key monitoring tasks.
9.4	<b>Community Protection</b>	Outcomes from the Inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services	The outcome from the summer 2018 inspection found those aspects of the Service most likely to be of interest to the public; emergency response, support to national resilience and fire protection, were all graded good. For the areas where some improvement is required, an action plan has been developed and will be monitored via the Community Safety and Waste Management Cabinet Panel.
9.5	<b>Community Protection</b>	On-call Firefighter Recruitment	The ability to fill a number of on-call firefighter posts remains an area of concern. The changing nature of the county and the obvious cost of living in many areas of Hertfordshire means that the opportunity to attract staff to work as on call firefighters is constantly diminishing. The long-term sustainability of the on-call service in Hertfordshire is therefore a key focus for the Directorate plan and is an integral part of the IRMP.
9.6	<b>Community Protection</b>	Forensic Fire Investigation Accreditation	From October 2020, any organisation that produces evidence for use in the criminal justice system will require accreditation to the ISO 17020 standard. As the Hertfordshire Fire and Rescue Service currently provide expert scene examination and evidence, the Service is considering how the services will accommodate the need for this accreditation.
9.7	<b>Children's Services</b>	Amendments to the Children and Families Act (2014)	Change to the Children and Families Act have extended the duties of local authorities in a number of areas and the department will be reviewing practices and developing processes to ensure that these new obligations are met.
9.8	<b>Children's</b>	Outcomes from Ofsted Inspection of Local Authority Children's	Following the Ofsted inspection which garnered an overall rating of 'Good', the department will be monitoring the

## Annual Governance Statement

Item	Directorate	Area for Improvement & Development	Proposed Action
	<b>Services</b>	Services (ILACS)	implementation of the recommendations arising from the inspection report.
9.9	<b>Resources</b>	Support from council wide project work	All departments within the Resources Directorate will continue to develop their approach to the provision of support for major projects within the council. This will ensure that there is appropriate focus on key corporate priorities whilst also ensuring they discharge their statutory and operational obligations.
9.10	<b>Resources</b>	SAP System Access Controls	Work is ongoing to minimise the risk of unauthorised changes to the council's core SAP system, through ensuring appropriate separation of development and implementation roles as well as the recording and monitoring system changes.

# Annual Governance Statement

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

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

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

Signed on behalf of Hertfordshire County Council:

**David Williams – Leader of the Council**

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**May 2019**

**Owen Mapley – Chief Executive**

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**May 2019**

# **Independent Auditor's Report**



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TO BE PROVIDED FOLLOWING COMPLETION OF THE AUDIT

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