

## **IMPORTANT INFORMATION - PLEASE NOTE**

The external audit of the draft statement of accounts for the year ended 31<sup>st</sup> March 2019 has not yet been completed by our external auditors, Ernst & Young LLP (EY), due to EY's resourcing pressures. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. Therefore this notification explains, as per paragraph (2a), that we are not yet able to publish our audited 2018/19 final statement of accounts in line with the deadline of 31<sup>st</sup> July 2019, as per paragraph (1). The audit committee will consider the results of the 2018/19 audit at its meeting on Tuesday 19<sup>th</sup> November 2019, after which we will publish the final audited accounts.

# DRAFT STATEMENT OF ACCOUNTS 2018-19

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# Narrative Statement 2018/19

## INTRODUCTION TO THE STATEMENT OF ACCOUNTS

By Councillor Geoffrey Williamson,  
Executive Members for Finance and Support



I am very pleased to introduce you to East Herts Council's Statement of Accounts for the year 2018/19, which again demonstrates the Council's excellent management of its financial resources.

Needless to say, setting the Council's budget for this year was immensely challenging. It was the first year of zero Revenue Support Grant, and when we started the budget planning process we were facing a substantial budget gap over the lifespan of our medium term financial plan, and specifically for the year, despite the savings we have made since 2010.

We are all aware of the restrictions this and the previous government imposed on all central spending, but the effects on local government funding have been disproportionately hard and there has been no let up on the financial pressures on local authorities. Since 2010 local government funding has reduced by 50% in real terms, but at the same time demands on councils have been growing sharply and this trend looks set to continue.

In 2015 we adopted a new approach to producing integrated strategic and financial plans designed to ensure that our resources are best targeted at our priorities. This is a rolling programme which ensures that our budget each year is designed around the delivery of our Corporate Priorities through our Service Plans.

Our Members and Officers directly engage in this process, proposing possible savings either through reductions in expenditure or increases in income. In addition to short-term outcomes, in order to take forward ideas that will take longer to consider and implement we put a sum aside as an "Invest to Save" fund to allow us to investigate these suggestions in more detail.

At the same time it has been open for the Council to look further afield for additional sources of revenue. One of the outcomes of the Finance & Business Planning process was a clear desire from Members for the Council to pursue more commercial opportunities, and using powers granted to us under the Localism Act of 2011, we have explored ways we can invest directly into projects and undertake more commercial ventures, looking at how we can get the best financial returns, but at a considered and acceptable degree of risk.

Our property investment company, Millstream Property Investments Ltd, started trading on 1 April 2018. This immediately generated revenue through financing property lettings and the business plan has been designed in order to increase the revenue the company will generate for the Council.

Also in order to bolster our financial resilience, we set up a Financial Sustainability Working Group, to look at the best examples of how other authorities have taken a more commercial stance to generating revenue. Out of the work of this group we developed a new Financial Sustainability Strategy, designed to bring in a number of income-generating schemes. We have looked at a number of pilot projects, one of which was the launching in January 2019 of the East Herts Lottery. This is a means of continuing to provide community support but with less reliance on Council funding, and has already benefitted a wide range of local organisations

Despite all these initiatives, this year we accepted we were compelled to increase Council Tax by the maximum we are allowed without a referendum which is £5 on a Band D property, which equates to a 3.1% increase, in order to produce a balanced budget. To give this a perspective, this increase is less than 10p per week, and represents only 0.3% of a typical total Council Tax bill.

Meantime our Capital Programme is also funding expenditure across our operational and community facilities, and of particular note is our leisure investment strategy which within the next four years will see us start to deliver our major projects at Grange Paddocks in Bishop's Stortford and Hartham in Hertford at a cost of £30m.

With regard to our Old River Lane project, we have been further developing our scheme to regenerate this quarter of Bishop's Stortford. In December 2017 the Council agreed the principles of the land use, which include a new arts centre, a new multi-storey car park in Northgate End, plus a mix of residential and commercial development. This is a multi-million pound scheme, and we are now working on the commercial viability of the proposals and on how the project can be financed and delivered.

Finally, I would like to take this opportunity to thank all the officers across all services who have played their part over the year managing the Council's finances so effectively and who have been engaged in formulating our business and financial plans for next year and beyond, and I extend my thanks also to our Accountancy Team, Internal Audit Service, the Performance, Audit & Governance Committee and our External Auditors for their respective roles in preparing and closing these accounts.

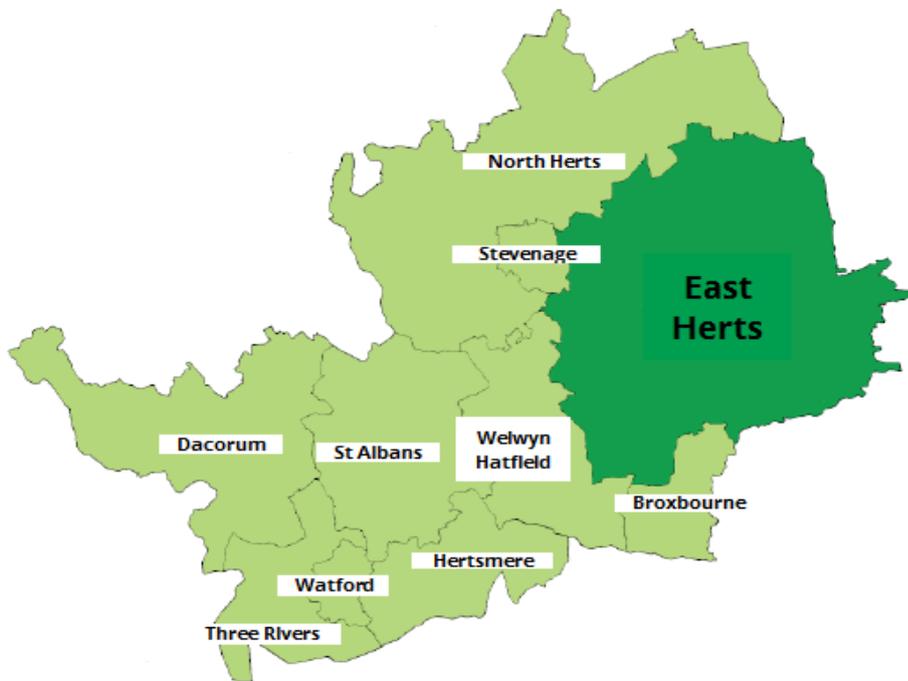
A handwritten signature in blue ink that reads "G. A. Williamson". The signature is written in a cursive style and is underlined.

Councillor Geoffrey Williamson, Executive Member for Financial Sustainability

# AN INTRODUCTION TO EAST HERTS

East Herts is a vibrant district, the largest of the 10 districts in Hertfordshire, with a unique mix of rural and urban communities and is a great place to live and work.

East Herts is home to the historic County town of Hertford, four other market towns and over 100 villages or hamlets scattered across the district with over 147,000 residents in total.



Almost 91% of East Herts is green space and there are a number of heritage parks and gardens. The district is also steeped in history, boasting more than 10 museums and heritages centres spread across the district, in its rural villages as well as its town centres.

The vision of the Council is to provide East Herts residents and businesses with a future that is prosperous and sustainable. To achieve this, a number of strategic objectives have been developed which allow the Council, in conjunction with its many partners, to focus on the key issues that concern the residents of East Herts.

# EAST HERTS COUNCIL PERFORMANCE

The summary below shows how the Council has performed against its corporate themes, further information can be found in the Annual Report published on the Council's website

“To preserve the unique character of East Herts and ensure it remains one of the best places to live and work”

## PRIORITY 1

### Improve the health and wellbeing of our communities

We have started planning for our leisure centres – a completely new centre at Grange Paddocks in Bishop's Stortford and the refurbishment of Hartham in Hertford and Ward Freman in Buntingford.

Our Social Prescribing scheme has received over 200 referrals, providing support for those affected by isolation and mild depression in the district.

Our new Community Transport Strategy was agreed in December 2018, recognising the challenges that accessing appropriate transport for essential and social journeys is challenging for many people in the district.

The sports schemes and activities set up through our Forever Active programme have been supported to become self-sustaining.

## PRIORITY 2

### Enhancing the quality of people's lives

Our District Plan was adopted in October 2018, identifying how East Herts will grow and develop to become an even more desirable and prosperous place to live, work and visit.

The new Homelessness and Rough Sleeping Review and Strategy was adopted by the Council in March 2019, setting out our intentions to sustain tenancies and protect and increase local housing options.

We have carried out extensive improvements on The Wash, Bull Plain and Maidenhead Street in Hertford.

In Bishop's Stortford, plans for the Northgate End development have been approved, which will create a residential and commercial block, along with a much-needed multi-storey car park, and free up the land at Old River Lane for transformation.

## PRIORITY 3

### Enabling a flourishing local economy

We have supported the Bishop's Stortford Business Improvement District (BID) to set themselves up. The BID will focus on improving the public realm, creating a better trading environment and supporting the local economy.

We have provided support to 20 small businesses through our Business Rates Discretionary Relief Scheme.

The Bishop's Stortford Launchpad, providing serviced office space to enable start up enterprise, has been used by over 100 businesses and individuals.

# FINANCIAL PERFORMANCE IN 2018/19

The 2018/19 budget was set by Full Council in March 2018 as part of the budget report and Medium Term Financial Plan for 2018/19 to 2021/22. There are five major 'building blocks' to the Council's revenue budget. These are shown below:

<p><b>Net Costs of Services -</b> Direct costs incurred by the Council in delivering services less any specific income generated</p>	<p><b>Use of Reserves -</b> Funding within the revenue budget from earmarked reserves. The impact of the use of reserves is a reduction in the income demand on Council Tax payers, however this is a finite source of funding and should represent value for money</p>	<p><b>Corporate Budgets -</b> Costs incurred and income received that are not service specific. For example Pension Fund deficit contributions, interest income and payments</p>
<p><b>Sources of Funding -</b> These are income budgets that are general and non-service specific income sources. These include the Revenue Support Grant, Non Domestic Rate income, New Homes Bonus and other general grants</p>	<p><b>Council Tax -</b> A local taxation on domestic properties which the Council collects for itself and on behalf of Hertfordshire County Council, the Police &amp; Crime Commissioner for Hertfordshire and Town &amp; Parish Councils to support the services provided</p>	

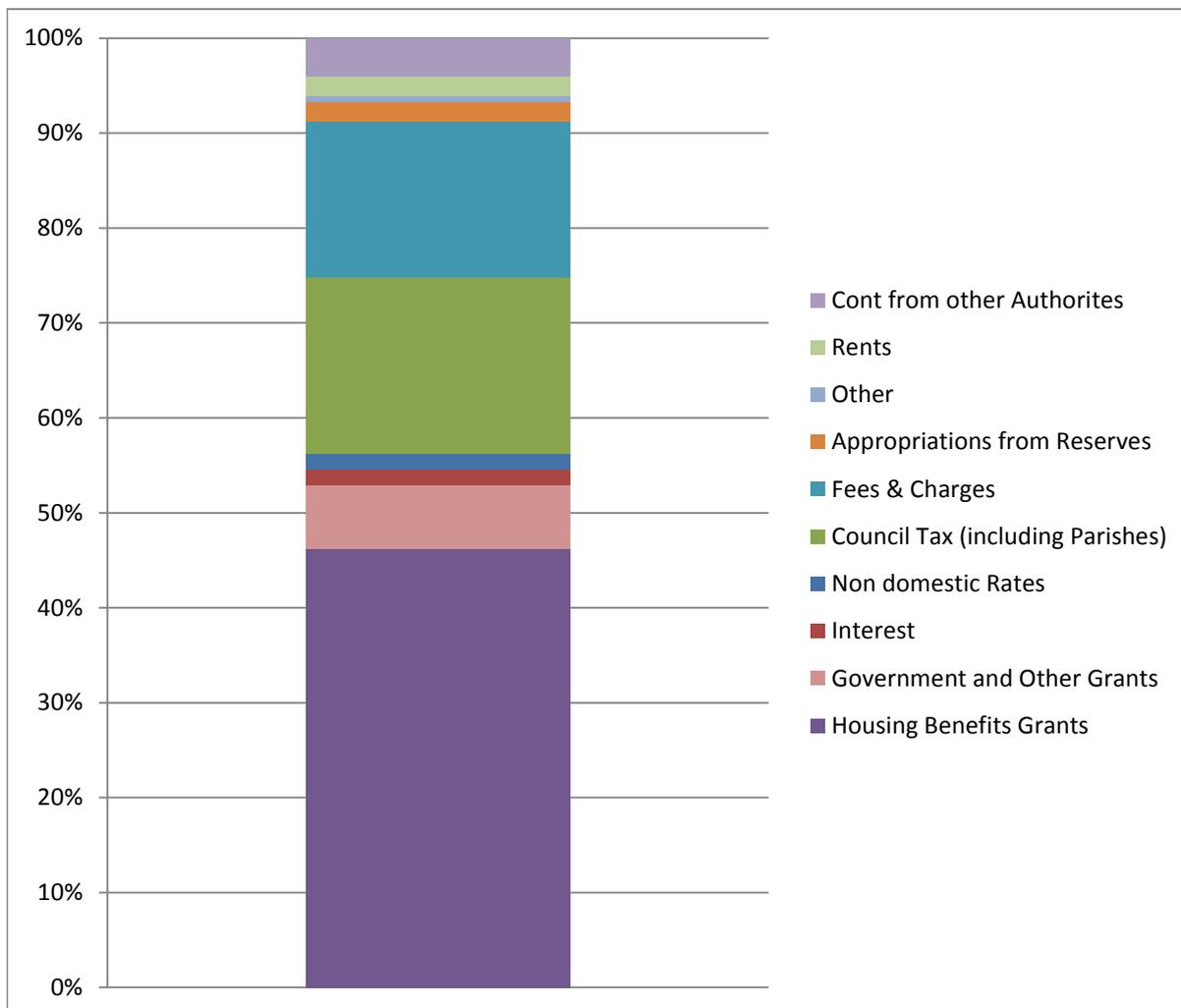
The table below details the Council's performance against the five major 'building blocks'. There was a £15k underspend in 2018/19, this has been transferred to the General Fund

	Original Budget 2018/19	2018/19 Outturn	Variance
	£'000	£'000	£'000
Total Net Cost of Services	13,830	13,808	(22)
Corporate Budgets Total	1,616	1,432	(184)
Net Use of Reserves	(342)	601	943
Funding	(5,325)	(6,077)	(752)
Council Tax	(9,779)	(9,779)	-
<b>Underspend</b>	-	<b>(15)</b>	<b>(15)</b>

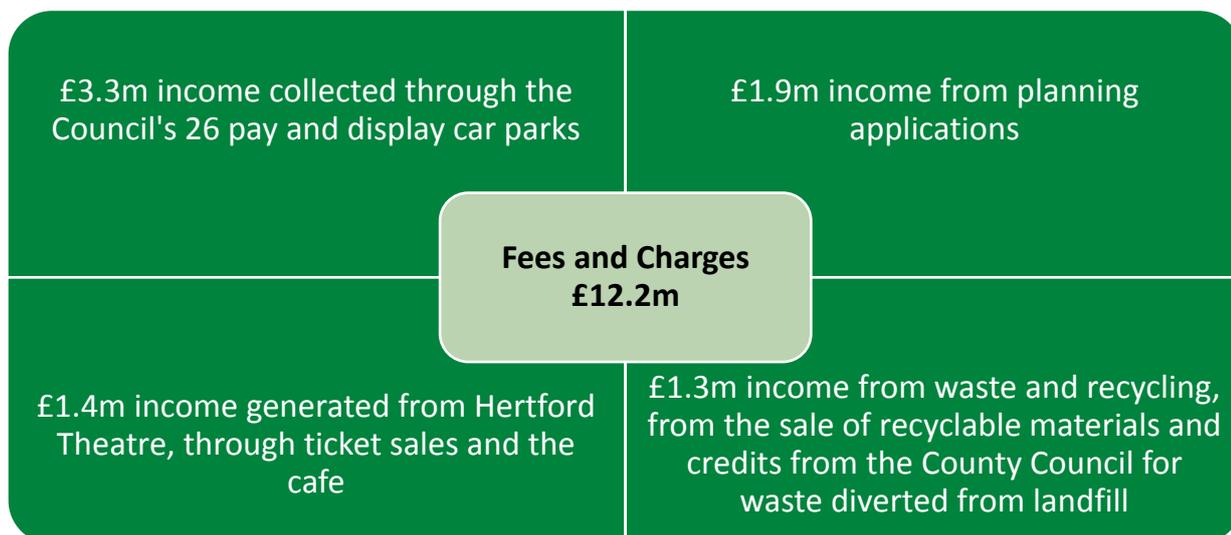
The Council's budget is monitored monthly by senior management and reported quarterly to the Executive. The budget above includes £1.1m use of reserves to fund services, this amount is included within the net cost of services figure.

## 2018/19 Income streams

The chart below shows the £74.3m of income that the Council received in 2018/19. The largest source of income was Housing Benefits subsidy (from central government) which is used to fund the payment of Housing Benefits to claimants.



Fees and charges are the second largest source of funding for the Council;



Included in the £4.9m of government and other grants are:

- £2.6m of New Homes Bonus, which is a Government scheme aimed at encouraging local authorities to grant planning permission in return for additional revenue.
- £1.7m of grant from central government to fund mandatory reliefs given in respect of Non Domestic Rates.

East Herts Council is the billing authority for Non Domestic Rates (Business Rates) collected from businesses across the district. This is then distributed to Central Government, East Herts Council and Hertfordshire County Council. After distribution and payment of tariffs the income attributable to East Herts totalled £1.2m in 2018/19

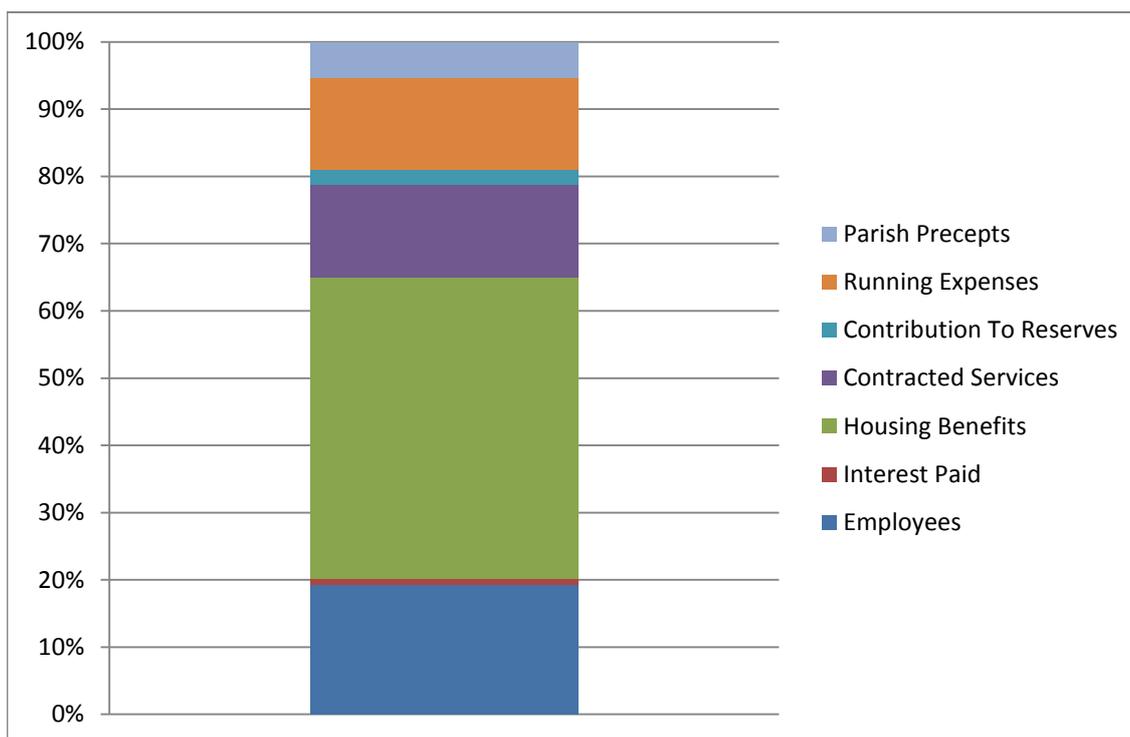
As the billing authority, East Herts Council collects Council Tax income from residents of the district; this is then distributed between Hertfordshire County Council, East Herts Council and the Police and Crime Commissioner. Of the income collected the Council's share in 2018/19 was £13.8m; £4m of which was distributed to Town and Parish Councils across the district. The remaining Council Tax income is used to fund services in the year.

The Council holds funds in reserves, this is money that has been put aside to manage cash flows, provide a contingency for unforeseeable events and to meet known or predicted future liabilities. In 2018/19 £1.5m of reserve funding was utilised and £1.7m was transferred into reserves.

The Council earned Interest and Investment income of £1.3m in 2018/19 on its portfolio of investments and holdings in property funds.

## 2018/19 Expenditure

The chart below shows the £74.3m that the the Council spent in 2018/19. Housing benefits make up the largest outgoing of the Council



Included in the Council's running expenses figure of £14.1m is the following expenditure:

- £3m of premises related costs, including ongoing maintenance of the Council's operational buildings, business rates, insurance and utilities costs for all the Council's buildings, car parks, theatre and leisure facilities.
- £6.5m direct costs of providing Council services throughout the year including, public and environmental health, planning, sports, leisure and parks.
- £0.3m spent on revenue grants and contributions

The cost of the Council's main contracts are included in the contracted services figure (£10.2m) are as follows:



# FINANCIAL MANAGEMENT

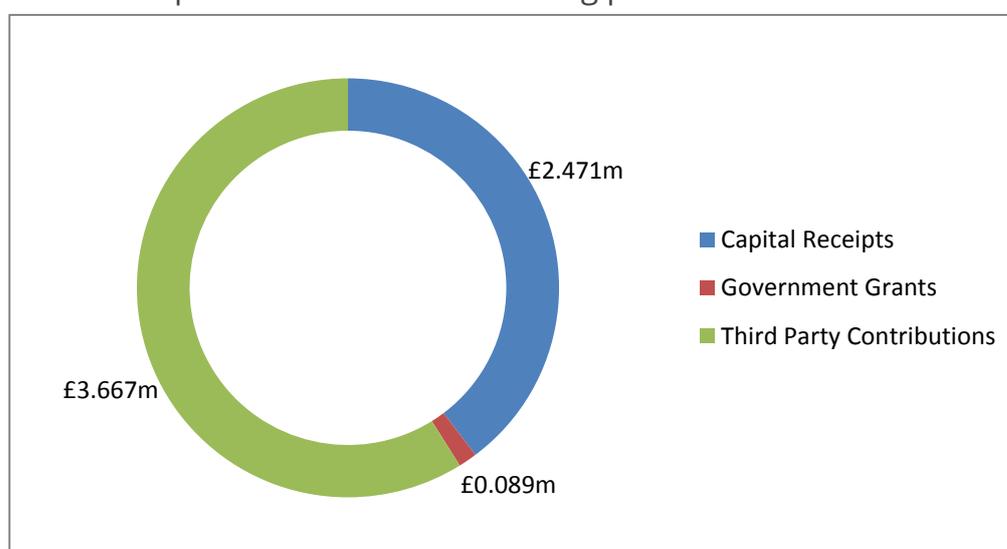
## Capital

Capital expenditure relates to the acquisition or enhancement of assets which generates a benefit for a period greater than one year. This differs to the Revenue expenditure, discussed over the previous pages, which is defined as money that the authority spends or receives in the same year that the services are delivered.

During 2018/19 the Council incurred expenditure of £6.227m on capital projects, compared with a capital programme budget of £12.238m. A selection of the capital schemes undertaken this year are shown

£724k spent on parks, open spaces, play and leisure facilities across the district	£39k spent on historic building grants to encourage the maintenance and upkeep of historic buildings	£1.837m transferred to the new Home Improvement Agency to fund disabled facilities grants
£485k investment in IT systems, infrastructure and system improvements	£58k on community capital grants to provide the right tools for people to get involved with local projects	£172k investment in Council owned properties

A combination of capital grant income, receipts from disposal of assets, third party contributions and revenue contributions were used to fund the 2018/19 capital programme. The split is shown in the following pie chart:



## MEDIUM TERM FINANCIAL PLAN

East Herts' approach to setting the revenue and capital budget for the four years commencing 2018/19 was to improve the organisational financial sustainability and resilience in the forthcoming years.

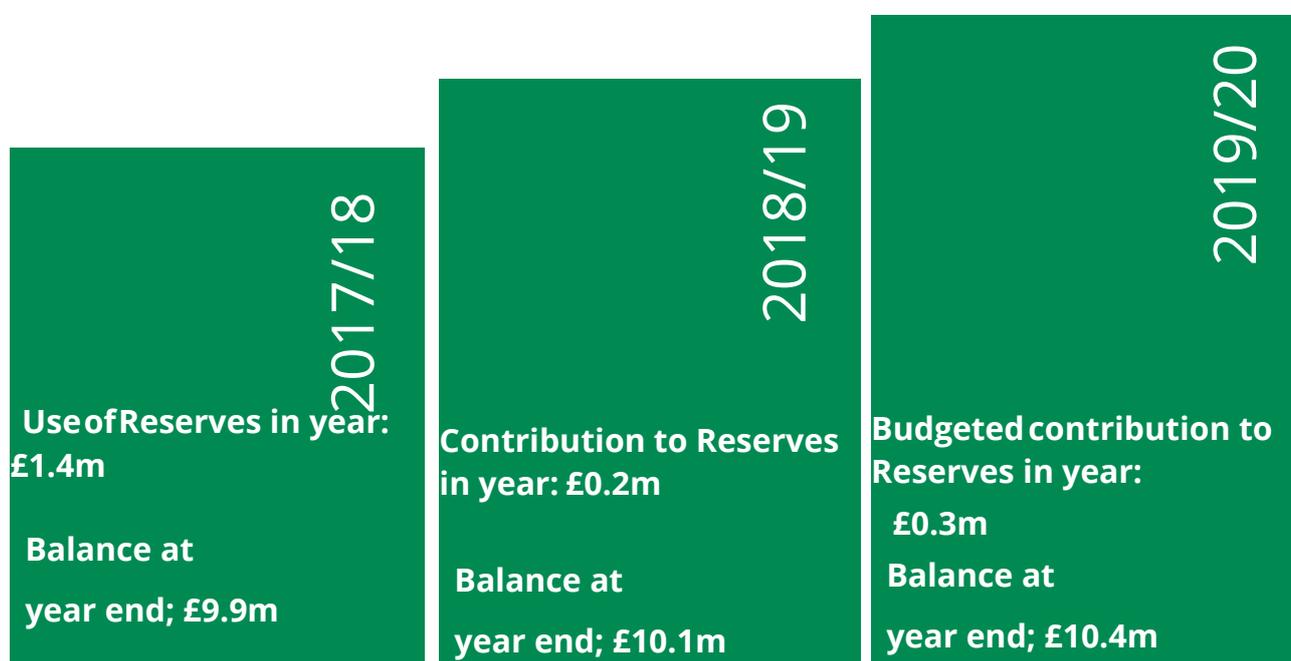
The budget report set out the proposals and outcomes that officers and members had arrived at to ensure that the Council maintains a sustainable budget position for the future.

A number of proposals were agreed to deliver future years savings and officers were tasked with areas that needed review and consideration for different delivery models.

The Council's strategic aims and priorities drive the Medium Term Financial Planning process and so changes in resource allocation were determined in accordance with policies and priorities.

The MTFP provides the framework for the development of annual budgets in line with the aims of the Council's Corporate Strategy. As a result of the grant funding cuts since 2010 (to 2018/19) the Council has delivered net savings of £2.6m

Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending. In 2018/19 the Council contributed a net £0.2m to reserves; the balance held in the general and earmarked at the end of the year is £10.1m. The following table shows the use of reserves over the past 2 years and the projected use in 2019/20, this highlights the overall decrease in the level of reserves held by the Council.



Details of the Council's earmarked reserves (set aside for a defined purpose to meet known or predicted future liabilities) and General Reserve (to manage cash flows and limit the need for temporary borrowing and to provide a contingency for unforeseeable events and emergency spending) can be found within the Statement of Accounts.

## **PENSION FUND**

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Under current accounting standards the impact of any pension liability must be shown in the balance sheet.

The Council's liability at 31 March 2019 was £33.635m which is an increase of £4.245m compared to the position at 31 March 2018.

Further information is given in note 33.

# EXPLANATION OF ACCOUNTING STATEMENTS

Statement	Explanation
Movement in Reserves 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
Comprehensive Income & Expenditure Statement	A summary of the resources generated and consumed by the Council in the year
Balance Sheet	Sets out the financial position of the Council on 31 March 2019
Cash Flow Statement	Summarises the Council's inflows and outflows of cash for the year 2018/19
Notes to the Accounts	Provides support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The notes include a Statement of Accounting Policies which details the legislation and principles on which the Statement of Accounts have been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the Statement of Accounts
Supplementary Financial Statements – The Collection Fund	Shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period
Glossary of Financial Terms	Explains some of the key terms used in the Statement of Accounts
Statement of Responsibilities for the Statement of Accounts	Identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the Statement of Accounts present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2019

# The Core Accounting Statements

## MOVEMENT IN RESERVES STATEMENT

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

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2018</b>		<b>3,854</b>	<b>8,955</b>	<b>2,994</b>	<b>530</b>	<b>934</b>	<b>17,267</b>	<b>74,576</b>	<b>91,843</b>
<b>Movement in reserves during 2018/19</b>									
<b>Total Comprehensive Income and Expenditure</b>		<b>(2,838)</b>	<b>-</b>	<b>-</b>	<b>(66)</b>	<b>-</b>	<b>(2,904)</b>	<b>3,733</b>	<b>(6,637)</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	3,029	-	(1,102)	(115)	-	1,812	(1,812)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>191</b>	<b>-</b>	<b>(1,102)</b>	<b>(181)</b>	<b>-</b>	<b>(1,092)</b>	<b>(5,545)</b>	<b>(6,637)</b>
Transfers to/(from) Earmarked Reserves	Note 6	(191)	273	-	-	(82)	-	-	-
Increase/Decrease in Year		0	273	(1,102)	(181)	(82)	(1,092)	(5,545)	<b>(6,637)</b>
<b>Balance as at 31 March 2019 carried forward</b>		<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>69,031</b>	<b>85,206</b>
		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2017</b>		<b>3,854</b>	<b>10,354</b>	<b>828</b>	<b>522</b>	<b>1,016</b>	<b>16,574</b>	<b>63,744</b>	<b>80,318</b>
<b>Movement in reserves during 2017/18</b>									
<b>Total Comprehensive Income and Expenditure</b>		<b>(5,382)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,382)</b>	<b>16,907</b>	<b>11,525</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	3,901	-	2,166	8	-	6,075	(6,075)	<b>0</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(1,481)</b>	<b>-</b>	<b>2,166</b>	<b>8</b>	<b>-</b>	<b>693</b>	<b>10,832</b>	<b>11,525</b>
Transfers to/(from) Earmarked Reserves	Note 6	1,481	(1,399)	-	-	(82)	-	-	-
Increase/Decrease in Year		-	(1,399)	2,166	8	(82)	693	10,832	<b>11,525</b>
<b>Balance as at 31 March 2018 carried forward</b>		<b>3,854</b>	<b>8,955</b>	<b>2,994</b>	<b>530</b>	<b>934</b>	<b>17,267</b>	<b>74,576</b>	<b>91,843</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	2018/19		2017/18	
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Net Expenditure £000
Chief Executive, PA's & Directors	524	0	524	665
Communications, Strategy & Policy	2,576	(146)	2,430	1,367
Human Resources & Organisation Development	593	(20)	573	604
Strategic Finance & Property	4,994	(589)	4,405	4,339
Democratic & Legal Services	1,791	(500)	1,291	1,499
Housing & Health	5,258	(1,303)	3,955	2,899
Planning & Building Control	3,054	(2,009)	1,045	1,589
Operations	15,712	(9,709)	6,003	6,782
Shared Revenues & Benefits Service	37,542	(36,384)	1,158	906
Shared Business & Technology Services	1,633	(38)	1,595	1,575
<b>NET COST OF SERVICES</b>			<b>22,979</b>	<b>22,225</b>
Payments of precepts to parishes			3,980	3,816
Gain on disposal of non current (fixed) assets			(1,758)	(2,248)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,222</b>	<b>1,568</b>
Interest payable and similar charges			660	669
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			777	833
Interest receivable and similar income			(1,265)	(1,033)
Income from investment properties ( Note 10)			(1,035)	(637)
Direct expenditure incurred on investment properties ( Note 10)			514	300
Changes in Fair Value of Investment Properties			278	1,896
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>(71)</b>	<b>2,028</b>
Recognised capital grants and contributions			(2,552)	(160)
Council tax income			(13,816)	(13,223)
Non domestic rates			(1,555)	(1,457)
Non service related government grants			(4,369)	(5,599)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME (Note 29)</b>			<b>(22,292)</b>	<b>(20,439)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>			<b>2,838</b>	<b>5,382</b>
(Surplus) or Deficit on revaluation of PPE assets			1,752	(10,081)
Reclassification of Grant			66	-
Remeasurements of the net defined benefit liability (Note 33)			2,384	(5,412)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>4,202</b>	<b>(15,493)</b>
(Surplus) / Deficit on revaluation of available for sale financial assets (Note 12)			(403)	(1,414)
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(403)</b>	<b>(1,414)</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>3,799</b>	<b>(16,907)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>6,637</b>	<b>(11,525)</b>

All operations arise from continuing activities.

## BALANCE SHEET

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

		31 March '19		31 March '18
		£000	£000	£000
Property, Plant & Equipment	Note 7			
- Other land and buildings		49,476		52,071
- Vehicles, plant, furniture and equipment		2,349		3,175
- Infrastructure assets		2,241		2,492
- Community assets		2,752		2,639
- Surplus assets		2,546		2,744
- Assets under Construction		1,345		
			60,709	
Investment Properties	Note 10	13,596		13,396
Intangible Assets	Note 11	865	14,461	1,039
			<b>75,170</b>	<b>77,556</b>
Long Term Investments	Note 35	22,118		21,743
Long Term Debtors	Note 15	1,034	23,152	257
<b>TOTAL LONG TERM ASSETS</b>			<b>98,322</b>	<b>99,556</b>
Short Term Investments	Note 35	26,002		39,695
Short Term Debtors	Note 15	9,606		5,632
Cash and Cash Equivalents	Note 16	14,977		6,315
<b>CURRENT ASSETS</b>			<b>50,585</b>	<b>51,642</b>
Provisions	Note 19	(1,493)		(1,915)
Short Term Creditors	Note 18	(14,078)		(14,572)
<b>CURRENT LIABILITIES</b>			<b>(15,571)</b>	<b>(16,487)</b>
Provisions	Note 19	(2,140)		(1,652)
Long Term Borrowing	Note 36	(7,711)		(7,711)
Net Pension Liability	Note 21	(33,635)		(29,390)
Grant Receipts in Advance - Capital	Note 29	(1,957)		(1,828)
- Revenue		(2,687)		(2,287)
<b>LONG TERM LIABILITIES</b>			<b>(48,130)</b>	<b>(42,868)</b>
<b>NET ASSETS</b>			<b>85,206</b>	<b>91,843</b>
<b>USABLE RESERVES</b>				
- General Fund	Note 20	3,854		3,854
- General Reserve	Note 20	852		934
- Earmarked Reserves	Note 6	9,228		8,955
- Capital Receipts Reserve	Note 20	1,892		2,994
- Capital grants Unapplied	Note 20	349		530
			<b>16,175</b>	<b>17,267</b>
<b>UNUSABLE RESERVES</b>				
- Revaluation Reserve	Note 21	23,142		25,257
- Available-for-Sale Reserve	Note 21	1,929		1,526
- Pensions Reserve	Note 21	(33,635)		(29,390)
- Capital Adjustment Account	Note 21	77,069		76,561
- Deferred Capital Receipts	Note 21	150		151
- Collection Fund Adjustment Account	Note 21	502		600
- Short-term Accumulating Compensated Absences Account	Note 21	(126)		(129)
			<b>69,031</b>	<b>74,576</b>
<b>TOTAL RESERVES</b>			<b>85,206</b>	<b>91,843</b>

## THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2018/19		2017/18
	£000	£000	£000
<b>OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Council Tax receipts	(10,188)		(9,780)
NNDR Receipts	(17,605)		(17,489)
Revenue Support Grant	0		(351)
DWP grants for benefits	(31,723)		(35,181)
Other Government grants	(5,559)		(5,471)
Cash received for goods and services	(15,441)		(16,006)
Interest received	(1,267)		(1,132)
<b>Cash inflows generated from operating activities</b>	<b>(81,783)</b>		<b>(85,411)</b>
<b>Cash Out Flows</b>			
Cash paid to and on behalf of employees	14,359		14,010
Housing Benefit paid out	33,324		34,010
Other operating cash payments	22,410		19,283
Precepts paid to other authorities	3,980		3,816
Interest paid	660		669
<b>Cash outflows generated from operating activities</b>	<b>74,733</b>		<b>71,788</b>
<b>Net Cash Inflow from operating activities</b>		<b>(7,050)</b>	<b>(13,623)</b>
<b>INVESTING ACTIVITIES</b>			
- Purchase of property plant and equipment, investment property and intangible assets	2,829		1,942
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,599)		(3,286)
- Capital grants	(2,727)		(407)
- Proceeds from short-term and long-term investments	(13,318)		10,568
<b>Net cash inflow from investing activities</b>		<b>(14,815)</b>	<b>8,817</b>
<b>FINANCING ACTIVITIES</b>			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	302		303
- Other payments for financing activities	12,901		9,003
<b>Net cash outflow from financing activities</b>		<b>13,203</b>	<b>9,306</b>
Net decrease in cash and cash equivalents		(8,662)	4,500
Cash and cash equivalents at the beginning of the reporting period		(6,315)	(10,815)
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(14,977)</b>	<b>(6,315)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

**i.** The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Accounts and Audit Regulations 2015 require the Council to prepare the Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice (SeRCOP) 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

**ii.** Management have reasonable expectation that the Council has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis of accounting has been adopted in preparing the Statement of Accounts.

### **iii. Accruals of Income & Expenditure**

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

- Income from the provision of services in the form of sales, fees, charges and rents is recognised and accounted for in the period to which they relate.
- Expenses in relation to services received (including services provided by employees, transport related, premises related and supplies and services related expenditure) are recorded as expenditure when the services are received rather than when payments are made, with the exception of quarterly utility payments where no actual apportionment is made for bills spanning two financial years.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision is made for doubtful debts and known uncollectable debts are written off in accordance with the Council's agreed policy.

#### **iv. Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three weeks or less that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### **v. Prior Period Adjustments , Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied

#### **vi. Charges to Revenue for Non - Current Assets (Property, Plant and Equipment and Intangible Assets)**

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

Depreciation attributable to the assets used by the relevant service revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

## **vii. Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Post Employment Benefits (Pensions)**

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. 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 of 2.5%. The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

The assets of Hertfordshire County Council 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
- Unit trust and managed fund investments (including property) – current bid price and disclosed in line with the requirements of IAS19.

The change in the net pensions liability is analysed into seven 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 services for which the employees worked

- past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the pension fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on 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 or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

The Hertfordshire Pension Fund revised the policy on the funding of early retirements from April 2013. Up to 31 March 2013 employers were permitted to spread the cost of early retirement strain costs over a period of up to 5 years. The Council had previously chosen to fund these costs over 3 years. From April 2013 employers pay the full amount of strain costs in one lump sum in the year of retirement.

Further information can be found in Hertfordshire County Council's Pension Fund's Annual Report which is available upon request from LPP, Hertfordshire County Council, Post point CHO 033, County Hall, Pegs Lane, Hertford, SG13 8DQ.

### **viii. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted where material to reflect such events

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

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

## **ix. Government grants and contributions - revenue and capital**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised in the accounts when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.

The grant or contribution is recognised immediately within the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition relating to the initial recognition that the Council has not satisfied.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as a liability within the Grants Receipts in Advance Account. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Revenue grants specific to service provision are shown against the relevant service in the Comprehensive Income and Expenditure Statement. General grants allocated by central government directly to local authorities as additional revenue funding which are non-ring fenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## **x. Minimum revenue provision**

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the calculated MRP is now nil.

## **xi. Overheads and support services**

As the Council does not include the recharge of overheads and support services in how they monitor and manage financial performance they are no longer included in the year end accounts.

## **xii. Provision for bad debt**

The value of receivables (debtors) shown on the Balance Sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision. The following methods are used:

Trade Accounts Receivable	- Age and Collectability
Housing Benefits Overpayments	- Age and Collectability
National Non Domestic Rates	- 1.0% against the net debit due reviewed against sums written off and opening yearly balances and collectability
Council Tax	- 0.3% against the net debit due reviewed against sums written off and opening yearly balances

### **xiii. Revenue expenditure funded from Capital under Statute (REFCUS)**

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

### **xiv. Capital receipts**

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be “usable” and are held within the Capital Receipts Reserve.

Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be “set aside” and are retained within the Capital Adjustment Account as provision for the repayment of debt.

### **xv. VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

### **xvi. Tax Income (Council Tax, Non-Domestic Rates (NDR))**

#### **Non Domestic Rates (NDR)**

The Council collects, administers and distributes Non Domestic Rates (NDR) for its area based on local rateable values based on the Valuation Office Agency (VOA). The tax liability is then calculated applying a business rate which is set and uniformly applied on a national basis. In 2013/14, the administration of NDR changed following the introduction of a Business Rates Retention Scheme which aims to give Councils greater incentive to grow businesses in their locality. The new regime also increased the financial risk and opportunities for local authorities, with income becoming more volatile and difficult to predict.

The new regime provides for local authorities to retain a proportion of the total collectable rates due in proportion of their relevant statutory share. For East Herts the proportion is 40%, the remainder being distributed to Hertfordshire County Council (10%) and Central Government (50%).

As part of the new regime the Government set up a system of 'Top ups', 'Tariffs' and 'Safety Nets' that were introduced to ensure that Councils were guaranteed a minimum level of retained NDR income, thus providing some financial certainty under the new scheme. In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and the financial impact of uncollected business rate income as at 31 March 2019 Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the Non Domestic Rates are summarised as follows:

- the Council's element of Retained Business Rate income, Tariffs, Top Up and Safety net is included in the CI&E Statement based on the relevant regulations.
- the NDR Collection Fund is prepared on an agency arrangement basis. Relevant proportions of the accounts Surplus/Deficit/taxpayer's Arrears and Provisions are allocated to the relevant Preceptors and Government and accounted for as Debtors/ Creditors in the Billing Authority's Accounts
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

### **Council Tax**

The Council as billing authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself, Hertfordshire County Council, Hertfordshire Police and Town and Parish Councils. In line with these agency arrangements, and in order to reflect the risks and rewards within the Council, the following transactions are included:

- the Council's Comprehensive Income & Expenditure Statement includes only the statutory precept under regulation.
- a debtor/creditor to reflect the difference between the various preceptors share of cash collected in the year and cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid

## 2. Expenditure and Funding Analysis

The object of the Expenditure and Funding Analysis is to demonstrate to Council Taxpayers how the funding available to the authority (ie government grants, rents, 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 general accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19	Net Expenditure chargeable to the		
	General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	378	146	524
Communications, Strategy & Policy	1,291	1,139	2,430
Human Resources & Organisation Development	489	84	573
Strategic Finance & Property	3,856	549	4,405
Legal & Democratic Services	1,159	133	1,292
Housing & Health	2,016	1,938	3,954
Planning & Building Control	720	325	1,045
Operations	3,917	2,086	6,003
Shared revenues & Benefits Service	598	560	1,158
Shared Business & Technology Services	1,591	4	1,595
<b>Net cost of services</b>	<b>16,015</b>	<b>6,964</b>	<b>22,979</b>
Other income and Expenditure	(14,989)	(5,152)	(20,141)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,026</b>	<b>1,812</b>	<b>2,838</b>
<b>Operating General Fund balance at 1 April 2018</b>	<b>17,267</b>		
Less Deficit on General Fund balance in year	(1,026)		
Reclassification of grant	(66)		
<b>Closing General Fund Balance at 31 March 2019</b>	<b>16,175</b>		

2017/18	Net Expenditure chargeable to the		
	General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	491	174	665
Communications, Strategy & Policy	1,172	195	1,367
Human Resources & Organisation Development	521	83	604
Strategic Finance & Property	3,615	724	4,339
Legal & Democratic Services	1,339	160	1,499
Housing & Health	1,764	1,135	2,899
Planning & Building Control	1,248	341	1,589
Operations	3,870	2,912	6,782
Shared revenues & Benefits Service	341	565	906
Shared Business & Technology Services	1,571	4	1,575
<b>Net cost of services</b>	<b>15,932</b>	<b>6,293</b>	<b>22,225</b>
Other income and Expenditure	(16,625)	(217)	(16,842)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(693)</b>	<b>6,076</b>	<b>5,383</b>
<b>Operating General Fund balance at 1 April 2017</b>	<b>16,574</b>		
Less Deficit on General Fund balance in year	693		
<b>Closing General Fund Balance at 31 March 2018</b>	<b>17,267</b>		

# Note to the Expenditure and Funding Analysis - Adjustments between Funding and Accounting Basis

2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Net change for			
	Adjustments for Capital Purposes	the Pensions Adjustments	Other Differences	Total Adjustments
	(Note 1)	(Note2)	(Note 3)	
	£000	£000	£000	£000
Chief Executive, PA's & Directors	95	51	-	146
Communications, Strategy & Policy	992	147	-	1,139
Human Resources & Organisation Development	24	60	-	84
Strategic Finance & Property	344	205	-	549
Legal & Democratic Services	33	100	-	133
Housing & Health	1,656	282	-	1,938
Planning & Building Control	91	234	-	325
Operations	1,871	215	-	2,086
Shared Revenues & Benefits Service	72	488	-	560
Shared Business & Technology Services	4	-	-	4
<b>Net cost of services</b>	<b>5,182</b>	<b>1,782</b>	<b>-</b>	<b>6,964</b>
Other income and expenditure from the Funding Analysis	(5,326)	79	95	(5,152)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>(144)</b>	<b>1,861</b>	<b>95</b>	<b>1,812</b>

2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Net change for			
	Adjustments for Capital Purposes	the Pensions Adjustments	Other Differences	Total Adjustments
	(Note 1)	(Note2)	(Note 3)	
	£000	£000	£000	£000
Chief Executive, PA's & Directors	98	76	-	174
Communications, Strategy & Policy	52	143	-	195
Human Resources & Organisation Development	18	65	-	83
Strategic Finance & Property	508	216	-	724
Legal & Democratic Services	33	127	-	160
Housing & Health	856	279	-	1,135
Planning & Building Control	109	232	-	341
Operations	2,607	305	-	2,912
Shared Revenues & Benefits Service	68	497	-	565
Shared Business & Technology Services	4	-	-	4
<b>Net cost of services</b>	<b>4,353</b>	<b>1,940</b>	<b>-</b>	<b>6,293</b>
Other income and expenditure from the Funding Analysis	239	154	(610)	(217)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>4,592</b>	<b>2,094</b>	<b>(610)</b>	<b>6,076</b>

## **Note 1 – Adjustments for Capital Purposes**

Adjustments for capital purposes for this column add in depreciation and impairment and revaluation gains and losses in the services line and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those asset
- Financing and investment income and expenditure – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices
- Taxation and non-specific grant income and expenditure – Capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those received in the year to those receivable without conditions or for which 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 were satisfied in the year.

## **Note 2 – Net change for the pensions’ adjustments**

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For Services – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past services costs
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

## **Note 3 – Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR 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.

### 3. Accounting Standards Issued not yet

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the Council to disclose information relating to accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts.

For this disclosure the standards introduced by the 2019/20 Code are:

- Amendments to IAS40 Investment Property: Transfers of Investment Property
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 223 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative
- Annual Improvements to IFRS Standards 2014-16 Cycle
- IFRS 16 Leases (implementation of this standard is delayed until April 2020)

The Code requires implementation from 1 April 2019 and therefore there is no impact on the 2018/19 Statement of Accounts.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information. Items included within the Council's Balance Sheet at 31 March 2019 for which there is a risk of material adjustment in the forthcoming year are as follows:

#### Pension Liability

The value of the pension liability as at 31st March 2019 is £33.635m. This liability depends on a number of factors, including discount rates, changes in retirement age, mortality rates and expected return on pension's assets. These are determined on an actuarial basis by Hymans Robertson, the actuaries for the Hertfordshire pension fund.

Change in assumptions at 31 March 2019	Approximate % increase to Employer liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	13.7
0.5% increase in the Salary Increase Rate	1%	1.8
0.5% increase in the Pension Increase Rate	8%	11.7

The figures in the table above give an indication of the potential impact that a change in assumptions could represent to the value of the pension liability. The figures represent key factors taken in isolation and are only indicative of the estimated impact as the assumptions interact in complex ways. The approach taken is consistent with that adopted to derive the IAS19 figures as per note 33.

## Property, Plant and Equipment

The Councils assets are shown in the accounts at either Fair Value, Fair Value (Existing Use) or Market Value (dependant on the class of asset. Further information can be found in Note 7). The valuations are carried out by our internal asset management team in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation professional standards and International Financial Reporting Standards (IFRS). These valuations are arrived at using recent comparable transactions and for specialised properties using depreciated replacement cost methodology.

The tables below show the 31 March 2019 value of the assets in the Statement of Accounts, the impact a 5% increase or decrease in asset value would have on the Balance Sheet and the depreciation charged to the Comprehensive Income and Expenditure statement.

	<b>31/03/2019</b>	<b>-5%</b>		<b>5%</b>	
	<b>Value</b>	<b>Value</b>	<b>Movement</b>	<b>Value</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Other Land & Buildings	78,749	74,811	(3,938)	82,686	3,937
Vehicles, Plant, Furniture & Equip.	20,014	19,013	(1,001)	21,014	1,000
Infrastructure	8,533	8,106	(427)	8,960	427
Community Assets	2,843	2,700	(143)	2,985	142
Surplus Assets	2,546	2,419	(127)	2,673	127
	<b>112,685</b>	<b>107,049</b>	<b>(5,636)</b>	<b>118,318</b>	<b>5,633</b>

## Depreciation

	<b>31/03/2019</b>	<b>-5%</b>		<b>5%</b>	
	<b>Value</b>	<b>Value</b>	<b>Movement</b>	<b>Value</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Other Land & Buildings	774	735	(39)	813	39
Vehicles, Plant, Furniture & Equip.	817	776	(41)	858	41
Infrastructure	266	253	(13)	279	13
	<b>1,857</b>	<b>1,764</b>	<b>(93)</b>	<b>1,950</b>	<b>93</b>

## Non Domestic Rates – Provision for outstanding appeals

Since the Retained Business Rate scheme was introduced on 1st April 2013 Local Authorities have assumed the liability for refunding business rate payers who successfully appeal against the rateable value of their property.

Appeals against the rateable value of a property are lodged by the rate payer with the Valuation Office Agency, who provides information of all the appeals that have been lodged to the Council.

An estimate of the potential impact of successful appeals has been calculated using analysis provided from Inform (a member of the Institute of Rating, Revenues and Valuation) and local knowledge.

The carrying amount of the provision at 31 March 2019 is £9.0m, of which the Council's share of £3.6m is reflected in the accounts. Higher success rates of appeals could result in a need for a larger provision. An increase of 5% would change the required provision by £450k affecting the surplus/deficit distribution to the Council, Hertfordshire County Council and Central Government.

## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

2018/19

### Adjustments involving the Capital Adjustment Account:

#### Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Charges for depreciation of non current assets	1,856	-	-	(1,856)
Revaluation / Impairment on Property Plant and Equipment	604	-	-	(604)
Movements in the market value of Investment Properties	279	-	-	(279)
Amortisation of intangible assets	417	-	-	(417)
Capital grants and contributions applied	(2,552)	-	-	2,552
Revenue expenditure funded from capital under statute	2,304	-	-	(2,304)
Revenue grants written down to the Capital Adjustment Account	(75)	-	-	75
Disposal of non current assets	620	-	-	(620)
Disposal of investment Properties	-	-	-	-

#### Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory adjustment relating to capital element of principal repayment for finance lease	1	-	-	(1)
Capital expenditure charged against the General Fund	(5)	-	-	5

### Adjustments involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement

Application of grants to capital financing transferred to the Capital Adjustment Account

### Adjustments involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,377)	2,377	-	-
Use of Capital Receipts Reserve to finance new capital expenditure		(3,479)	-	3,479

### Adjustments involving the Deferred Capital Receipts Reserve:

Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
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### Adjustments involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,252	-	-	(4,252)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,391)	-	-	2,391

### Adjustments involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	98	-	-	(98)
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### Adjustment involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	-	-	3
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<b>Total Adjustments</b>	<b>3,029</b>	<b>(1,102)</b>	<b>(115)</b>	<b>(1,812)</b>
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## Usable Reserves

## 2017/18 Comparative Figures

**Adjustments involving the Capital Adjustment Account:**Reversal of items debited or credited to the Comprehensive Income and ExpenditureStatement:

	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Charges for depreciation of non current assets	2,003	-	-	(2,003)
Revaluation / Impairment on Property Plant and Equipment	1,432	-	-	(1,432)
Movements in the market value of Investment Properties	1,896	-	-	(1,896)
Amortisation of intangible assets	405	-	-	(405)
Capital grants and contributions applied	(168)	-	-	168
Revenue expenditure funded from capital under statute	511	-	-	(511)
Revenue grants written down to the Capital Adjustment Account	(344)	-	-	344
Disposal of non current assets	1,038	-	-	(1,038)
Disposal of investment Properties	-	-	-	-

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory adjustment relating to capital element of principal repayment for finance lease	(304)	-	-	304
Capital expenditure charged against the General Fund	(765)	-	-	765

**Adjustments involving the Capital Grants Unapplied Account:**

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	8	(8)
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Application of grants to capital financing transferred to the Capital Adjustment Account

**Adjustments involving the Capital Receipts Reserve:**

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,286)	3,286	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(1,120)	-	1,120
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	-	-	-	-

**Adjustments involving the Deferred Capital Receipts Reserve:**

Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
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**Adjustments involving the Pensions Reserve:**

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,471	-	-	(4,471)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,377)	-	-	2,377

**Adjustments involving the Collection Fund Adjustment Account:**

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(610)	-	-	610
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**Adjustment involving the Accumulated Absences Account**

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2)	-	-	2
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<b>Total Adjustments</b>	<b>3,901</b>	<b>2,166</b>	<b>8</b>	<b>(6,075)</b>
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## 6. Transfers to/from Earmarked Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cashflow management.

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

	<b>Balance 1 April 2017 £000</b>	<b>Transfers Out/(In) 2017/18 £000</b>	<b>Balance 31 March 2018 £000</b>	<b>Transfers Out 2018/19 £000</b>	<b>Transfers In 2018/19 £000</b>	<b>Balance 31 March 2019 £000</b>
Interest Equalisation Reserve	(1,461)	-	(1,461)	-	(175)	<b>(1,636)</b>
Insurance Fund	(1,010)	45	(965)	22	-	<b>(943)</b>
Emergency Planning Reserve	(37)	1	(36)	-	-	<b>(36)</b>
LDF/Green Belt Reserve	(226)	164	(62)	-	-	<b>(62)</b>
Housing Condition Survey Reserve	(85)	(5)	(90)	-	-	<b>(90)</b>
Council Elections Reserve	(24)	(21)	(45)	-	(28)	<b>(73)</b>
Sinking fund - Leisure Utilities / Pension Reserve	(228)	-	(228)	-	-	<b>(228)</b>
Performance Reward Grant Reserve	(10)	-	(10)	-	-	<b>(10)</b>
Waste Recycling Income Volatility Reserve	(300)	52	(248)	145	-	<b>(103)</b>
Footbridge Reserve	(150)	-	(150)	-	-	<b>(150)</b>
Transformation Reserve	(938)	660	(278)	278	-	-
DCLG Preventing Repossessions	(18)	-	(18)	-	-	<b>(18)</b>
New Homes Bonus Priority Spend	(4,191)	(676)	(4,867)	836	(661)	<b>(4,692)</b>
Collection Fund Reserve	(288)	288	-	-	-	-
DEFRA Flood Support	(9)	5	(4)	-	-	<b>(4)</b>
Commercial Property Fund	(1,243)	1,116	(127)	127	-	-
Neighbourhood Planning IER	(9)	9	-	-	(14)	<b>(14)</b>
Traffic Regulation Order Consolidation Reserve	-	-	-	-	(55)	<b>(55)</b>
MTFP Transition Funding Reserve	(7)	7	-	-	-	-
Flexible Homelessness Grant	(120)	(110)	(230)	-	(500)	<b>(730)</b>
Preventing Homelessness New Burdens Reserve	-	(105)	(105)	-	(125)	<b>(230)</b>
Healthy Lifestyle Promotions Reserve	-	(31)	(31)	-	-	<b>(31)</b>
Land Charges New Burdens	-	-	-	-	(33)	<b>(33)</b>
HB Subsidy Volatility Reserve	-	-	-	-	(30)	<b>(30)</b>
HB Subsidy Volatility Reserve	-	-	-	-	(60)	<b>(60)</b>
<b>Total</b>	<b>(10,354)</b>	<b>1,399</b>	<b>(8,955)</b>	<b>1,408</b>	<b>(1,681)</b>	<b>(9,228)</b>

Interest Equalisation Reserve	This reserve was established to assist the Council in managing the financial implications of adverse interest rate fluctuations. £175k has been added to this reserve in 2018/19.
Insurance Fund	Its purpose is to support the Council's insurance and risk management process in anticipation of setting up a self-insurance fund in some areas to reduce future insurance premiums. £22k was utilised in 2018/19 to match expenditure.
Emergency Planning Reserve	The reserve was set up to support the work of an Emergency Planning Officer Group that has been established within the Council. There was no call on it in 2018/19.
Local Development Framework / Green Belt Reserve	This reserve was established in 2008/09 to smooth expenditure over the Council's Medium Term Financial Plan (MTFP). There has been no call on the reserve in 2018/19.
Housing Condition Survey Reserve	This reserve was established to fund House Condition Surveys. There has been no movement on the reserve in 2018/19.
Council Elections Reserve	Established to smooth expenditure over the MTFP. £27,500 has been transferred into the reserve for future election costs.
Sinking Fund – Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009, the Council has provided guarantees in respect of utilities and employers pension costs. There was no call on it in 2018/19.
Performance Reward Grant Reserve	The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) in 2009/10. There was no call on the reserve in 2018/19.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income. £145k was utilised in 2018/19.
Footbridge Reserve	The Council's MTFP included setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the River Stort. There was no call on the reserve 2018/19.

Transformation Reserve	The Cost of Change reserve was set up to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. This was amalgamated with the Service Improvement Fund and Restructure Fund to form a new Transformation Reserve. This has been fully utilised in 2018/19.
DCL Preventing Repossessions	This reserve was established from unspent Government Grant monies. There were no appropriations in 2018/19.
New Homes Bonus Priority Spend	This reserve was established from unspent New Homes Bonus monies received from DCLG and the 2014/15 GL underspend. Over the years, further amounts of New Homes Bonus monies have been transferred to this reserve and £836k was appropriated in 2018/19 to fund various items.
Collection Fund Reserve	As a result of a Council decision in January 2014, a Government Funding Risk Reserve was established to smooth the effect on the Council of income volatility following the new NDR funding regime. This was subsequently renamed the Collection Fund Reserve. £300k was added to the reserve in 2016/17 from the reduction in the Interest Equalisation Reserve and appropriations made from it to fund the Collection Fund deficit. This was fully utilised in 2017/18.
DEFA Flood Support for Local Businesses	This reserve was established from the unspent element of a DEFRA grant received to enable the Council to support local businesses to repair damage following the flooding in 2013/14. There has been no call on this in 2018/19.
Commercial Property Fund	Established in February 2015 to support the development of investment opportunities in commercial property. Appropriations have been made in 2018/19 which results in the reserve being fully utilised.
Neighbourhood Planning Grant	Created in 2014/15 from unspent Neighbourhood Planning grant received from MHCLG to fund future spend. Unspent grant received in 2018/19 has been added to the reserve.
IER Grant	Unspent grant monies received from the Cabinet Office to fund the costs of additional work involved in the Individual Electoral Registration Scheme have been added to the reserve in 2018/19.

Traffic Regulation Order Consolidation Reserve	A new reserve established in 2015/16 to fund East Herts contribution to the biennial TRO consolidation exercise. This was fully utilised in 2017/18.
MTFP Transition Funding Reserve	A new reserve established in 2016/17 from the Transition Grant awarded by MHCLG as part of the 2016/17 financial settlement. An additional amount has been added to the reserve in 2018/19.
Flexible Homelessness Grant	Established from unspent Government Grant monies in 2017/18 specifically to prevent and deal with homelessness. Further unspent grant monies have been added in 2018/19.
Preventing Homelessness New Burdens	A new reserve set up in 2017/18 from unspent Government Grant to deal with Homelessness. There was no call on this in 2018/19.
Healthy Lifestyle Promotions	A new reserve created in 2018/19 from unspent grant monies received to promote healthy living.
Land Charges New Burdens	This reserve has been created from unused government grant received to cover costs of transferring the local land charges register to HM Land Registry.
HB Subsidy Volatility Reserve	A new reserve created to manage the financial implications of fluctuations in Housing Benefit subsidy.

## 7. Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational non-specialised property – fair value based on existing use value. The multi-storey car parks and surface car parks have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.
- Operational specialised property (inc leisure centres and Hertford theatre) – depreciated replacement cost (DRC).
- Community assets – nominal value or historical cost.
- Infrastructure and all other assets – depreciated historical cost.
- Surplus assets - fair value, estimated at highest and best use from a market participant's perspective.

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2016 the Council has revalued its assets on an annual basis (formerly four year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

The Valuations were carried out by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) on the basis of standards of professional practice set out in the guidance below:

- Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards ('The red Book')
- International Financial Reporting Standards (IFRS)
- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting ('The CIPFA Code')

The valuer has arrived at their opinion of Fair Value, Fair Value (Existing Use) and Market Value from referring to recent comparable transactions. For Specialised properties the Fair value (Existing Use) has been derived using Depreciated Replacement Cost methodology.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains 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)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS and Lucy Smith MRICS as at 31 March 2019. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains 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)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset 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.

No impairment losses have been identified in 2018/19.

## Depreciation

All Property, Plant and Equipment, other than freehold land and Community Assets (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	10 to 20 years
Equipment, Furniture and Fittings	5 to 20 years
Community Assets	No depreciation (30 years for exceptions)
Non-operational assets	40 to 60 years
Enhancement to Leased Properties	10 to 25 years
Plant	20 to 35 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

## Componentisation

In line with accounting requirements the Council considers the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1m for individual assets.

## Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The gain or loss on disposal is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are transferred from the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account (the carrying amount of the asset) and the usable Capital Receipts Reserve (the disposal proceeds)

## Property, Plant & Equipment

Cost or Valuation	Other Land & Buildings *	Vehicles, Plant, Furniture & Equip.	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
<b>2017/18</b>							
As at 01/04/2017	69,726	19,727	8,406	2,772	2,447	-	103,078
Additions	166	201	112	288	-	373	1,140
Disposals	-	-	-	-	(38)	-	(38)
Reclassifications	330	-	-	(330)	-	-	-
Revaluations	9,746	-	-	0	335	(373)	9,708
<b>Total as at 31/03/2018</b>	<b>79,968</b>	<b>19,928</b>	<b>8,518</b>	<b>2,730</b>	<b>2,744</b>	<b>0</b>	<b>113,888</b>
<b>2018/19</b>							
As at 01/04/2018	79,968	19,928	8,518	2,730	2,744	0	113,888
Additions	336	295	15	113	-	1,351	2,110
Disposals	-	(209)	-	-	-	-	(209)
Reclassifications	(71)	-	-	-	71	-	-
Revaluations	(1,484)	-	-	-	(269)	(5)	(1,758)
<b>Total as at 31/03/2019</b>	<b>78,749</b>	<b>20,014</b>	<b>8,533</b>	<b>2,843</b>	<b>2,546</b>	<b>1,346</b>	<b>114,031</b>
<b>Depreciation &amp; Impairment</b>							
As at 01/04/2017	25,889	15,586	5,765	91	-	-	47,331
Charge for Year	576	1,167	261	-	-	-	2,004
Acc depreciation w/o on revaluation	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Impairment (reversal) recognised in the service	1,432	-	-	-	-	-	1,432
Revaluations	-	-	-	-	-	-	-
<b>Total as at 31/03/2018</b>	<b>27,897</b>	<b>16,753</b>	<b>6,026</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>50,767</b>
As at 01/04/2018	27,897	16,753	6,026	91	0	0	50,767
Charge for Year	774	817	266	-	-	-	1,857
Acc depreciation w/o on revaluation	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Impairment (reversal) recognised in the service	603	96	-	-	-	-	699
Revaluations	-	-	-	-	-	-	-
<b>Total as at 31/03/2019</b>	<b>29,274</b>	<b>17,666</b>	<b>6,292</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>53,323</b>
<b>Net Book Value</b>							
Balance Sheet as at 31/03/18	52,071	3,175	2,492	2,639	2,744	0	63,121
Balance Sheet as at 31/03/19	49,475	2,348	2,241	2,752	2,546	1,346	60,708

\*All Land and Buildings were re-valued in 2016/17

### Reconciliation of Additions in the year to Capital Spend

	2018/19	2017/18
	£000	£000
Additions in the year (as above)	2,110	-
Intangible assets	243	588
Investment Properties	790	150
	3,143	738
plus REFCUS (not included in note 7)	2,305	511
Third Party Loan (Long Term Debtor)	778	-
<b>Total Capital Spend</b>	<b>6,226</b>	<b>1,249</b>

## 8. Analysis of Fixed Assets

	31 March '19	31 March '18
	Number	Number
Council Dwellings - Hostels	2	2
- Houses	2	5
Council Offices - Freehold	2	2
- Leasehold	0	0
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks ( incl. Leasehold)	35	35
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	188 HA	188 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	54 Units	47 Units
Land Awaiting Development	1 HA	1 HA
Public Convenience	3	5

## 9. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations.

The Council's policy is to maintain Heritage assets in order to preserve them for future generations because of their cultural and historical associations. The Council does not consider that a commercial value can be placed upon these assets and its policy is, therefore, not to disclose on the balance sheet. They continue to be included within community assets with a nominal value. The assets are insured in order to protect the Council's interest in the event of damage or destruction.

The Heritage assets held within Community assets at a nominal sum are as follows; there is no value held for these assets.

The Castle Wall (ancient flint), Hertford

Scott's Grotto, Ware

Monument, remains of Church of St Mary's, Old Cross

Community land Obelisk, Bishop's Stortford

Flowing River Sculpture, Bishop's Stortford

Evolution sculpture at Hartham Common

Hertford Theatre Wall Bronze Resin Sculpture

Civic Regalia

Oil Painting of Wallfields, Hertford

Chainsaw sculpture Pishiobury Park, Sawbridgeworth

## 10. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rents received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2018/19 £000	2017/18 £000
Rental income from investment property	(1,035)	(637)
Direct operating expenses arising from investment property	514	300
<b>Net gain</b>	<b>(521)</b>	<b>(337)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases the Council has repairing obligations which are met through revenue expenditure.

Authorities shall account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

Investment property is recognised at cost, including transaction costs but excluding operational components (PPE) where these can be measured reliably. Following recognition investment property is revalued on a fair value basis reflecting market state and circumstances on a given date.

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

The following table summarises the movement through additions and re-classification of investment properties over the year:

	2018/19 £000	2017/18 £000
Balance at start of the year	13,396	14,768
Additions: Not transferred through re-classification	790	151
Additions: Transferred through re-classification	-	-
Disposals : Transferred through re-classification	(339)	-
Net gains / (losses) from fair value adjustments	(250)	(1,523)
<b>Balance at end of the year</b>	<b>13,597</b>	<b>13,396</b>

In addition to arriving at the fair values for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'fair value hierarchy'.

### **Fair Value Hierarchy**

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes.

### **Valuation Techniques Used to Determine Level 2 Values for Investment Property**

The fair value of investment property has been based on the market approach using current market conditions and recent sales prices, existing lease terms and rentals and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

### **Highest and Best Use**

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

### **Valuation Process for Investment Properties**

The Council's investment property has been valued as at 31 December 2018 (with a statement of professional opinion given that there has been no material change up to 31 March 2019) by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

## 11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

The Authority 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 Authority. The useful life assigned to the major software applications used by the Authority is 5 years. The movement on Intangible Asset balances during the year is as follows:

	Software £000	2018/19 Other Intangible £000	Total £000	Software £000	2017/18 Other Intangible £000	Total £000
<b>Balance at start of year:</b>						
Gross carrying amounts	5,085	-	5,085	4,497	-	4,497
Accumulated amortisation	(4,046)	-	(4,046)	(3,641)	-	(3,641)
<b>Net carrying amount at start of year</b>	<b>1,039</b>	<b>-</b>	<b>1,039</b>	<b>856</b>	<b>-</b>	<b>856</b>
Additions:						
Purchases	243	-	243	588	-	588
Amortisation for the period	(417)	-	(417)	(405)	-	(405)
<b>Net carrying amount at end of year</b>	<b>865</b>	<b>-</b>	<b>865</b>	<b>1,039</b>	<b>-</b>	<b>1,039</b>
Comprising:						
Gross carrying amounts	5,328	-	5,328	5,085	-	5,085
Accumulated amortisation	(4,463)	-	(4,463)	(4,046)	-	(4,046)
	<b>865</b>	<b>-</b>	<b>865</b>	<b>1,039</b>	<b>-</b>	<b>1,039</b>

## 12. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### Financial Guarantees

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2018 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 6 to the Notes to the Core Statements.

No other financial guarantees were identified in 2018/19.

### Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. Potential Council loans falling within this category relate to an assisted car purchase scheme and a cycle scheme. The Council currently has no loans under its assisted car purchase scheme and the amount advanced under the cycle scheme is considered immaterial.

## **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

### **Available-For-Sale Assets**

Available-For-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at 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:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on quoted market prices.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

## Financial Instruments Balances

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown in the Balance Sheet to be further analysed into various defined categories. The investments, lending & borrowing disclosed in the Balance Sheet are made up of the following categories of 'financial instruments'.

	Long Term		Current	
	31 March '19 £000	31 March '18 £000	31 March '19 £000	31 March '18 £000
<b>Borrowing</b>				
Financial Liabilities at amortised cost	7,711	7,711	12,127	13,791
<b>Total Borrowing</b>	<b>7,711</b>	<b>7,711</b>	<b>12,127</b>	<b>13,791</b>
<b>Investments</b>				
Loans and Receivables	1,034	257	49,235	57,721
Available for Sale Financial Assets	22,118	21,743	-	-
<b>Total Investments</b>	<b>23,152</b>	<b>22,000</b>	<b>49,235</b>	<b>57,721</b>

See also Notes 35 and 36 to the Core Statements. (Investments and Borrowings)

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current assets'. This would include accrued interest on long term liabilities and investments that are payable/receivable in 2018/19.

Available for Sale Financial Assets are measured at fair value on a recurring basis. The valuation techniques used to measure them maximise the use of relevant observable inputs and minimise the use of unobservable inputs and are categorised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	2018/19 £000	2017/18 £000
Available for Sale - Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	21,407	21,016
<b>Balance at end of the year</b>			<b>21,407</b>	<b>21,016</b>

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year

## The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price.
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

### Available for Sale Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Available-for-Sale Financial Instruments Reserve. This records unrealised revaluation gains/losses arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets. The table below sets out the transactions for the year:

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	1,526	112
Upward revaluation of investments	403	1,414
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	-	-
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	-	-
	<b>1,929</b>	<b>1,526</b>

See also Note 21.

### 13. Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

2018/19	Financial Liabilities		Financial Assets		Total
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets		
	£000	£000	£000	£000	
Interest Expense	660	-	-	660	
<b>Interest Payable and Similar Charges</b>	<b>660</b>	<b>-</b>	<b>-</b>	<b>660</b>	
Interest Income	-	(1,264)	-	(1,264)	
Realised Gains	-	-	-	-	
<b>Interest and Investment Income</b>	<b>-</b>	<b>(1,264)</b>	<b>-</b>	<b>(1,264)</b>	
Losses on revaluation	-	-	-	-	
<b>Loss arising on revaluation of financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net (Gain) / Loss for year</b>	<b>660</b>	<b>(1,264)</b>	<b>-</b>	<b>(604)</b>	

2017/18	Financial Liabilities		Financial Assets		Total
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets		
	£000	£000	£000	£000	
Interest Expense	669	-	-	669	
<b>Interest Payable and Similar Charges</b>	<b>669</b>	<b>-</b>	<b>-</b>	<b>669</b>	
Interest Income	-	(1,033)	-	(1,033)	
Realised Gains	-	-	-	-	
<b>Interest and Investment Income</b>	<b>-</b>	<b>(1,033)</b>	<b>-</b>	<b>(1,033)</b>	
Losses on revaluation	-	-	-	-	
<b>Loss arising on revaluation on financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net (Gain) / Loss for year</b>	<b>669</b>	<b>(1,033)</b>	<b>-</b>	<b>(364)</b>	

### 14. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Link Asset Services has provided the Fair Value Calculation for the loans and investments.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- Where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2019		31st March 2018	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Liabilities</b>	14,412	18,828	21,502	25,918

For financial liabilities, the fair value is more than the carrying amount because the Council's portfolio of loans comprises fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

	31st March 2019		31st March 2018	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Loans and Receivables *</b>	72,387	71,675	79,722	78,994

\* Excludes Fund Managers cash included within Note 16.

The fair value is greater than the carrying amount due to the Council's investment in Property Funds. The Fund value per unit, less the exit fee, is higher than price paid.

Also see notes 35 and 36 to the Core Statements. (Investments and Borrowings)

## 15. Debtors

### Short Term Debtors

	31 March '19 £000	31 March '18 £000
Central government bodies	2,748	343
Other local authorities	585	103
Bodies external to general government (ie all other bodies)	6,273	5,186
	<b>9,606</b>	<b>5,632</b>

### Long Term Debtors

	31 March '19 £000	31 March '18 £000
Bodies external to general government (ie all other bodies)	1,034	257
	<b>1,034</b>	<b>257</b>

## 16. Cash and Cash Equivalents

	31 March '19 £000	31 March '18 £000
Short-term deposits with banks	14,977	6,315
<b>Total Cash and Cash Equivalents</b>	<b>14,977</b>	<b>6,315</b>

## 17. Assets Held for Sale

The Council has no assets held for sale as at 31 March 2019.

## 18. Creditors

Short Term Creditors	31 March '19	31 March '18
	£000	£000
Central government bodies	6,029	5,962
Other local authorities	1,543	2,732
Bodies external to general government (ie all other bodies)	6,506	5,878
	<b>14,078</b>	<b>14,572</b>

## 19. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

The provisions held for Non Domestic Rate appeals, Council Tax and Non Domestic Rates bad debts are charged as an expense to the relevant collection fund in the first instance. This charge either reduces the Council's surplus or increases the deficit due from the collection fund. These amounts are included in the Taxation and Non-specific Grant income section on the Comprehensive Income and Expenditure Statement.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities with the most significant being in respect of Non Domestic Rates Valuation Appeals.

	Short Term		Long Term	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
<b>Balance at 1 April</b>	1,915	1,638	1,652	1,114
Additions	478	815	488	538
Amounts used	(801)	(538)	-	-
Transferred	(99)	-	-	-
<b>Balance at 31 March</b>	<b>1,493</b>	<b>1,915</b>	<b>2,140</b>	<b>1,652</b>

## 20. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 5 Adjustments between accounting basis and funding basis under regulations and Note 6 Transfers to/from Earmarked Reserves.

## 21. Unusable Reserves

	31 March '19	31 March '18
	£000	£000
Revaluation Reserve	23,142	25,257
Available for Sale Financial Instruments	1,929	1,526
Capital Adjustment Account	77,069	76,561
Deferred Capital Receipts Reserve	150	151
Pensions Reserve	(33,635)	(29,390)
Collection Fund Adjustment Account	502	600
Accumulated Absences Account	(126)	(129)
<b>Total Unusable Reserves</b>	<b>69,031</b>	<b>74,576</b>

### Revaluation Reserve

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

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

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

	2018/19		2017/18
	£000	£000	£000
<b>Balance at 1 April</b>		25,257	15,423
Downward revaluation of assets	(1,150)		10,082
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-		(38)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		(1,150)	10,044
Difference between fair value depreciation and historical cost depreciation		(363)	(210)
<b>Balance at 31 March</b>		<b>23,744</b>	<b>25,257</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2018/19		2017/18
	£000	£000	£000
<b>Balance at 1 April</b>		1,526	112
Upward revaluation of investments	403		1,414
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	-		-
		403	1,414
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		-	-
<b>Balance at 31 March</b>		<b>1,929</b>	<b>1,526</b>

### 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 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 5 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2018/19		2017/18
	£000	£000	£000
<b>Balance at 1 April</b>		76,561	80,906
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(1,857)		(2,004)
· Charges for depreciation on revalued assets	362		210
· Movements in the market value of investment properties	(279)		(1,523)
· Revaluation/Impairment on Property, Plant and Equipment	(604)		(1,805)
· Amortisation of intangible assets	(417)		(406)
· Revenue expenditure funded from capital under statute	(2,304)		(511)
· Revenue grants written down to the Capital Adjustment Account	2,552		160
· Disposal of non-current assets	(545)		(962)
· Adjusting amounts written out of Revaluation Reserve	-		(38)
		(3,092)	(6,879)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	3,479		1,120
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	116		344
· Application of grants to capital financing from the Capital Grants Unapplied Account	-		-
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	-		304
· Capital expenditure charged against the General Fund	5		766
		3,600	2,534
<b>Balance at 31 March</b>		<b>77,069</b>	<b>76,561</b>

## Pensions 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 funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension 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.

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	(29,390)	(32,709)
Actuarial gains or (losses) on pensions assets and liabilities	(2,384)	5,412
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	(4,252)	(4,471)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,391	2,378
<b>Balance at 31 March</b>	<b>(33,635)</b>	<b>(29,390)</b>

### 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.

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	151	153
Transfer to the General Fund for the capital element of finance lease payments	(1)	(2)
<b>Balance at 31 March</b>	<b>150</b>	<b>151</b>

### Collection Fund Adjustment Account

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

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	600	(10)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non Domestic Rate income calculated for the year in accordance with statutory requirements	(98)	610
<b>Balance at 31 March</b>	<b>502</b>	<b>600</b>

## 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 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.

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	(129)	(131)
Settlement or cancellation of accrual made at the end of the preceding year	129	131
Amounts accrued at the end of the current year	(126)	(129)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3	2
<b>Balance at 31 March</b>	<b>(126)</b>	<b>(129)</b>

## 22. Nature of Expenses Disclosure

	2018/19 £'000	2017/18 £'000
Employee Benefits Expenses	15,434	15,269
Other Service Expenses	20,237	19,558
Housing Benefits Transfer Payments	33,324	34,010
Depreciation, amortisation and impairment	5,196	4,353
Precepts and levies	3,980	3,816
Interest payments	660	669
Changes in fair value of Investment Properties	278	1,896
Net interest on the net defined benefit liability & remeasurement of the defined benefit liability for long term employee benefits	777	833
<b>Total Expenditure</b>	<b>79,886</b>	<b>80,404</b>
Fees charges and other service income	(16,773)	(15,323)
Government grants	(39,328)	(41,578)
Interest and investment income	(1,265)	(1,033)
Income from council tax and non-domestic rates	(15,371)	(14,680)
Gain on disposal of non current assets	(1,758)	(2,248)
Recognised capital grants and contributions	(2,553)	(160)
<b>Total Income</b>	<b>(77,048)</b>	<b>(75,022)</b>
<b>Deficit on Provision of Services</b>	<b>2,838</b>	<b>5,382</b>

## 23. Jointly Controlled Operations

The Council operates three services under a 'Jointly Controlled Operation' arrangement:

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013 and
- Waste and Street Cleansing Service, with North Herts District Council, which commenced on 8 May 2018

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service and North Herts is lead for the Waste and Street Cleansing service. All three arrangements are governed by separate Joint Partnership Boards comprising of Council officers. Each authority has equal representation on both Boards. These Boards report to each Authority's Executive Committee. The Revenues and Benefits Shared Service also operates a joint Committee with equal numbers of Councillors from both Authorities to scrutinise the operational management of the service.

In line with the Accounting Code of Practice this arrangement is accounted for as a jointly controlled operation. A jointly controlled operation uses the assets and resources of the two partner councils without the establishment of a separate legal entity. Under these arrangements each council accounts separately for its own transactions including use of assets, liabilities, income, expenditure and cash flows.

This note sets out details of the income & expenditure of the joint arrangements and the apportionments between the councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to these arrangements.

	2018/19			2017/18		
	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000
<b>Expenditure</b>						
Employees	382	1,367	3,148	-	1,402	3,043
Transport Related Expenses	24	12	17	-	25	16
Supplies and Services	19	1,323	217	-	1,270	214
Support Services	-	-	-	-	-	1,155
<b>Total Expenditure</b>	<b>425</b>	<b>2,702</b>	<b>3,382</b>	<b>-</b>	<b>2,697</b>	<b>4,428</b>
<b>Income</b>						
Stevenage Borough Council		1,315	1,639	-	1364	1,557
East Herts District Council	211	1,387	1,743	-	1333	2,871
North Herts District Council	214	-	-	-	-	-
<b>Total Income</b>	<b>425</b>	<b>2,702</b>	<b>3,382</b>	<b>-</b>	<b>2,697</b>	<b>4,428</b>
<b>Net Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement in the Net Costs of Service.

## 24. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2018/19 East Herts Council incurred the following fees relating to external audit and inspection:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor	40	53
Rebate from the Audit Commission in respect of audit fees	0	(8)
Fees payable to Ernst & Young for the certification of grant claims and returns	6	8
Prior Year additional fees	6	0
	<b>52</b>	<b>53</b>

## 25. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members'

Allowance Scheme for the year ending 31 March, was as follows:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Basic Allowances	268	269
Special Responsibility Allowances	119	110
Travel and Subsistence expenses	15	11
	<b>402</b>	<b>390</b>

A full disclosure of payments is available on the Council's website.

## 26. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:-

Remuneration Band	Number of Employees	
	2018/19	2017/18
	Total	Total
£50,000 to £54,999	3	1
£55,000 to £59,999	1	4
£60,000 to £64,999	3	2
£65,000 to £69,999	1	2
£70,000 to £74,999	2	1
£75,000 to £79,999	2	2
£80,000 to £84,999	1	-
£85,000 to £89,999	-	-
£90,000 to £94,999	-	2
£95,000 to £99,999	1	-
£100,000 to £104,999	-	-
£105,000 to £109,999	-	2
£110,000 to £114,999	1	-
£115,000 to £119,999	-	-

The above table includes those members of staff who left the Council and received an exit package. See Note 27 below.

## 27. Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below.

Exit package cost band (including special payments)	Number of Redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
							£	£
£								
0-20,000	4	-	-	1	4	1	37,060	11,000
20,001-40,000	2	1	-	1	2	2	69,745	48,890
40,001-60,000	2	-	-	-	2	-	97,877	-
60,001-80,000	-	1	-	-	-	1	-	71,163
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>8</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>8</b>	<b>4</b>	<b>204,682</b>	<b>131,053</b>

## 28. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 26, whose salary is more than £50,000 per year:-

Post Holder 2018/19	Salary (inc expense allowance)	Benefits in Kind	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive	110,510	-	-	110,510	20,720	131,230
Director	95,738	-	-	95,738	17,998	113,736
Head of Revenues & Benefits Shared Service	73,216	-	-	73,216	13,906	87,122
Head of HR & Organisational Development (left 03/03/2019)	48,239	-	-	48,239	9,456	57,695
Head of Planning & Building Control (seconded 01/03/19)	63,175	-	-	63,175	11,918	75,093
Head of Strategic Finance & Property	71,558	-	-	71,558	13,452	85,010
Head of Communications, Strategy & Policy	67,630	-	-	67,630	12,813	80,443
Head of Legal & Democratic Services	77,546	-	-	77,546	14,636	92,182
Head of Housing & Health	62,205	-	-	62,205	11,812	74,017
Head of Operations	45,240	-	-	45,240	0	45,240
Head of HR & Organisational Development (started 28/01/19)	12,211	-	-	12,211	2,320	14,531
Head of Planning & Building Control (started 01/03/19)	3,992	-	-	3,992	759	4,751
<b>2017/18</b>						
Chief Executive	108,209	-	-	108,209	20,332	128,541
Director	107,587	-	-	107,587	16,788	124,375
Director	94,206	-	-	94,206	17,465	111,671
Head of Revenues & Benefits Shared Service	70,033	-	-	70,033	13,291	83,324
Head of HR & Organisational Development (left 28/02/2018)	52,222	-	24,795	77,017	11,684	88,701
Head of Planning & Building Control	67,159	-	-	67,159	12,746	79,905
Head of Strategic Finance & Property	67,754	-	-	67,754	12,969	80,723
Head of Communications, Strategy & Policy	62,043	-	-	62,043	11,600	73,643
Head of Legal & Democratic Services	78,520	-	-	78,520	14,815	93,335
Head of Housing & Health	60,013	-	-	60,013	11,290	71,303
Head of Operations	56,514	-	-	56,514	-	56,514

## 29. Grant Income

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

	2018/19 £000	2017/18 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Council Tax	13,816	13,223
Non-Domestic Rates	1,555	1,457
Revenue Support Grant	-	351
New Homes Bonus	2,645	3,565
Other Capital Grants	2,552	160
Sec 31 Business Rate Support	1,897	1,554
Other Revenue Grants	49	129
	<b>22,514</b>	<b>20,439</b>
<b>Credited to Services</b>		
<u>Grants</u>		
DWP	34,045	34,788
DCLG	735	928
LAA	25	39
Cabinet Office	55	68
DEFRA	7	5
EEDA	-	65
Sports England	80	82
Department of Education	13	4
	<b>34,960</b>	<b>35,979</b>
<u>Other Contributions</u>		
Contributions from Other Authorities*	2,872	2,752
Income from Other Bodies	694	641
	<b>3,566</b>	<b>3,393</b>

\* includes the contribution from Stevenage Borough Council for the Shared Revenues and Benefits Service

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

	2018/19 £000	2017/18 £000
<b>Grants Receipts in Advance</b>		
<b>Capital</b>		
Other Capital Grants	47	61
Developer Contributions	1,910	1,767
	<b>1,957</b>	<b>1,828</b>
<b>Revenue</b>		
Developer Contributions	2,590	2,287
Other Revenue Grants	97	-
	<b>2,687</b>	<b>2,287</b>

## 30. Related Party Transactions

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.

Related parties to this authority would include:

Central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund. Members of close family, or the same household of an individual identified as a related party are also assumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement.

Three members of the Council held a position of director at Wodson Park Trust. The Council paid this company £14k.

Three senior officers of the Council held a position of director at Millstream Property Investments Ltd. The Council advanced loans to this company totalling £783k

A senior officer of the Council held a position of Trustee of Scotts Grotto Trust. The Trust received a grant of £23k from the Council.

A number of District Council members are also members of Town and Parish Councils that receive funding from this Council. Precept payments are disclosed in the Comprehensive Income and Expenditure Statement. Any grants made to these bodies were made with proper consideration of declarations of interest.

Hertfordshire County Council is a related party in respect of various transactions including pension's contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for debtors and creditors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown within Notes 15 & 18.

## 31. Capital Expenditure and Capital Financing

	2018/19 £000	2017/18 £000
<b>Opening Capital Financing Requirement</b>	<b>(23,079)</b>	<b>(23,079)</b>
<b>Capital investment</b>		
Property, Plant & Equipment	631	367
Infrastructure	15	112
Community Assets	113	288
Investment Property	790	150
Intangible Assets	243	588
Assets Under Construction	1,351	373
Revenue Expenditure Funded from capital under Statute	2,305	511
Third Party Loan	778	-
<b>Sources of finance</b>		
Capital receipts	(3,464)	(1,120)
Government grants and other contributions	(1,979)	(504)
Sums set aside from Revenue:		
Direct revenue contributions	(5)	(765)
Loan/ finance lease principal repayments		
<b>Closing Capital Financing Requirement</b>	<b>(22,301)</b>	<b>(23,079)</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	-	-
<b>Decrease in Surplus in Capital Resource *</b>	<b>-</b>	<b>-</b>

\* East Herts has a negative Capital Financing Requirement which represents a surplus in capital resources

## 32. Leases

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

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

### The Council as a Lessor

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and

a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). Depreciation is applied in the year of acquisition.

The Council is not required to raise council tax to cover depreciation, impairment and gains and losses on revaluation arising on leased assets. Any such costs that have been charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

### **Operating Leases**

Rents paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

### **The Council as a Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Investment Properties) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**Finance leases**

In April 2010, the Council identified an arrangement containing a lease relating to 27 vehicles used in the Refuse Collection and Recycling and Street Cleansing contract with Veolia Environmental Services. Under this arrangement, the Council was seen as effectively leasing 27 vehicles from Veolia. The lease term is for 7 years starting from May 2011. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease. Following changes to the Recycling operation, ten (10) of the existing vehicles were surrendered and replaced by 6 new vehicles purchased directly by the Council. The remaining 17 vehicles continue to be accounted for as a finance lease.

As at 31 March 2018, the Council had fulfilled its commitment under this lease:

	2018/19 £000	2017/18 £000
Finance lease Creditor as at 31 March	-	304
Finance expenditure	-	(304)
<b>Gross commitment in lease as at 31 March</b>	<b>0</b>	<b>0</b>

## Council as a lessee

### Operating leases

The Council leases the Buntingford Service Centre.

The Council has granted leases to various occupiers of shops, offices, industrial units and other miscellaneous assets for varying number of years. These arrangements are accounted for as operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March '19 £000	31 March '18 £000
Not later than one year	210	210
Later than one year and not later than five years	840	840
Later than five years	840	1,050
	<b>1,890</b>	<b>2,100</b>

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

	2018/19 £000	2017/18 £000
Minimum lease payments	210	210
Lease payments receivable	-	-
	<b>210</b>	<b>210</b>

## Council as a lessor

### Finance leases

The Council leases out Pindars Lodge.

Following the introduction of IFRS 1 and this assets transfer from an operating lease to finance lease, a lease term of 50 years from March 1997 was set.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. 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:

	2018/19 £000	2017/18 £000
Finance lease debtor as at 31 March	149	150
Unearned finance income	228	240
<b>Gross investment in lease as at 31 March</b>	<b>377</b>	<b>390</b>

The gross investment in the lease which is the minimum lease payments will be received over the following periods:

	<b>Gross investment in lease 31 March '19 £000</b>	<b>Gross investment in lease 31 March '18 £000</b>
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	321	335
	<b>391</b>	<b>405</b>

### Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements. The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>31 March '19 £000</b>	<b>31 March '18 £000</b>
Not later than one year	1,258	1,335
Later than 1 year and not later than 5 years	4,008	3,893
Later than 5 years	33,178	33,535

## 33. Pension Scheme

As part of the terms and conditions of employment the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employee retires, the Council has a commitment to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit final salary scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term. Under the Scheme members' retirement benefits are not affected by the Fund's performance.

Pension contributions are based on rates determined by the Fund's professionally qualified actuary based on triennial reviews. The most recent review was undertaken in January 2017.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year.

The following transactions set out the position for the year:

	2018/19 £000	2017/18 £000
<b>Comprehensive Income &amp; Expenditure Statement:</b>		
Net Cost of Services:		
Current service cost	3,406	3,638
Non Distributed Costs - Past Service Cost / (Gain)	69	-
Net Operating Expenditure:		
Interest cost	3,498	3,337
Expected returns on assets in the scheme	(2,721)	(2,504)
<b>Costs charged against CI&amp;E</b>	<b>4,252</b>	<b>4,471</b>
Amounts to be met from Government Grants & Local Taxation: movement on the pensions reserve	(1,855)	(2,096)
Actual amount charged against council tax for pensions in the year:		
<b>Employers contributions payable to scheme</b>	<b>2,397</b>	<b>2,375</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2019 is a loss of £26.795m

#### Assets and liabilities in relation to retirement benefits

	2018/19 £000	2017/18 £000
<b>1 April</b>	<b>134,640</b>	<b>133,497</b>
Current Service Cost	3,475	3,638
Interest Cost	3,498	3,337
Contributions by scheme participants	578	604
Actuarial (gains) and losses	7,575	(2,359)
Benefits paid	(4,039)	(4,077)
<b>31 March</b>	<b>145,727</b>	<b>134,640</b>

The liabilities detailed above represent the Council's underlying commitment to pay retirement benefits in the long term.

The total liability of £145.727m (£134.64m in 2017/18) has a substantial impact on the net worth of the Council as recorded on the balance sheet, resulting in a negative overall balance of £33.634m (£29.395m in 2017/18).

## Reconciliation of fair value of the scheme assets:

	2018/19 £000	2017/18 £000
<b>1 April</b>	105,250	100,787
Expected rate of return	2,721	2,504
Actuarial gains and losses	5,191	3,053
Employer contributions	2,397	2,379
Contributions by scheme participants	578	604
Benefits paid	(4,039)	(4,077)
<b>31 March</b>	<b>112,098</b>	<b>105,250</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets

The actual return on scheme assets in the year was £7.575m (this was (£2.359m) in 2017/18).

Scheme history	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Present value of liabilities	(145,727)	(134,640)	(133,496)	(117,750)	(121,952)
Fair value of assets	112,098	105,250	100,787	88,954	87,610
<b>(Deficit) in the scheme</b>	<b>(33,629)</b>	<b>(29,390)</b>	<b>(32,709)</b>	<b>(28,796)</b>	<b>(34,342)</b>

## Impact on the net worth of the Council

However, statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as:

- the deficit on the Local government scheme will be made good by increased contributions over the remaining working life of employees(i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the pension scheme by the Council in the year to 31 March 2020 is £2.318m (£2.374m to 31 March 2019).

## Basis for estimating assets and liabilities

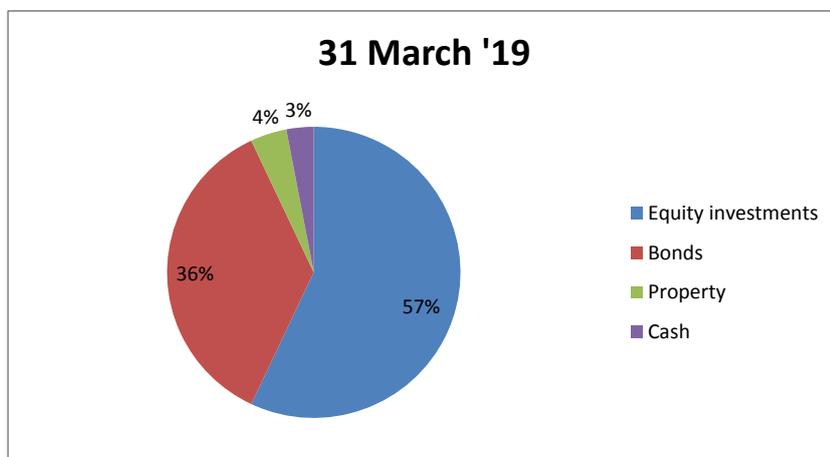
Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at January 2017.

The principal assumptions used by the actuary have been:

	31 March '19	31 March '18
Long-term expected rate of return on assets in the scheme:		
Equity investments	2.5%	2.5%
Bonds	2.5%	2.5%
Property	2.5%	2.5%
Cash	2.5%	2.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.5 years	22.5 years
Women	24.9 years	24.9 years
Longevity at 65 for future pensioners:		
Men	24.1 years	24.1 years
Women	26.7 years	26.7 years
Rate of inflation/ Pension increase	2.4%	2.4%
Rate of increase in salaries	2.5%	2.5%
Expected Return on Assets		
Discount Rate	2.6%	2.5%
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%	50%
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%	75%

A full breakdown of the Fund's assets including the prior financial year comparator is detailed below:

Asset Category	Period Ended 31 March 2019				Period Ended 31 March 2018			
	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets
	£000	£000	£000	%	£000	£000	£000	%
Equity Securities								
Consumer	4,986	-	4,986	4	4,809	-	4,809	5
Manufacturing	4,347	-	4,347	4	4,136	-	4,136	4
Energy & Utilities	1,157	-	1,157	1	1,104	-	1,104	1
Financial Institutions	4,622	-	4,622	4	4,695	-	4,695	4
Health & Care	912	-	912	1	666	-	666	1
Information Technology	3,507	-	3,507	3	3,281	-	3,281	3
Other	299	-	299	-	250	-	250	-
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non investment grade)	-	-	-	-	-	-	-	-
UK Government	-	-	-	-	-	-	-	-
Other	-	51	51	-	-	42	42	-
Private Equity	-	5,256	5,256	5	-	3,993	3,993	4
Real Estate								
UK Property	-	3,971	3,971	4	-	3,487	3,487	3
Overseas Property	-	4,252	4,252	4	-	3,436	3,436	3
Investment Funds & Unit Trusts:								
Equities	28,284	-	28,284	25	27,662	-	27,662	26
Bonds	38,998	-	38,998	35	37,851	-	37,851	36
Commodities	-	-	-	-	-	-	-	-
Infrastructure	-	1,087	1,087	-	-	251	251	-
Other	947	5,924	6,871	6	707	5,446	6,153	6
Derivatives								
Foreign Exchange	-	(134)	(134)	-	-	(84)	(84)	-
Cash and Cash Equivalents	3,627	-	3,627	3	3,513	-	3,513	3
<b>TOTALS</b>	<b>91,686</b>	<b>20,407</b>	<b>112,093</b>	<b>100</b>	<b>88,674</b>	<b>16,571</b>	<b>105,245</b>	<b>100</b>



## Nature and Extent of Risks arising

In general, participation in a defined benefit pension scheme means the council as an employer is exposed to a number of risks:

- Investment risks - the Fund holds investments in asset classes such as equities, which have volatile market values. Whilst these assets are expected to provide a real return in the long term, their short term return is volatile and can result in the need for additional funding should a funding deficit emerge.
- Interest Rate risk - Under the requirements of IAS 19, the Pension Fund's liabilities are discounted using market yields on high quality corporate bonds, with a similar duration of the funding needs of the Fund. The value of the Fund's real assets may not move in the same way.
- Inflation Rate risk - the Fund's benefits are locked to inflation, however the Fund's assets are not. Deficits may arise as a result of asset performance being lower than inflation.
- Longevity risk - inherent longevity and demographic disparity will exist between longer term assumptions and actual experience.

Since the estimation of the Council's defined benefit obligations is sensitive to the actuarial assumptions set, a sensitivity analysis has been included to demonstrate the impact of a change in assumption would have on the Council's deficit.

Change in assumptions as at 31 March 2019:	Approximate % increase to Employer Liability	Approximate monetary amount
	%	£000
0.5% decrease in real discount rate	9%	13,869
0.5% increase in the salary increase rate	1%	1,817
0.5% increase in the Pension increase rate	8%	11,660

Increase in life expectancy will depend on the structure of the revised assumption (i.e if improvements to survival rates predominantly apply at younger or older ages).

## Impact on the Council's Cashflow

The objectives of the scheme is to keep employer contributions at as constant a rate as possible. The Council has agreed a strategy with the schemes actuary, Hymans Robertson LLP, to achieve a funding level of 100% over the next 25 years. The next triennial valuation will take place in January 2020

## Governance Arrangements

Governance of the Pension Scheme is the responsibility of the full Council of Hertfordshire County Council, with delegated authority to the Council's Pension Committee. The governance arrangements are specified by a 'Governance Policy' and 'Compliance Policy' Statement. In addition fund investments are undertaken in line with the Fund's Investment Strategy which specifies the need for a diversified investment portfolio and that the investment structure reflects the liability duration of the Fund.

## 34. Nature and Extent of Risks arising from Financial Instruments

### Key Risks

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

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

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect and maximise (given the identified level of risk) the financial resources available to fund services. The Council in the annual Treasury Management Strategy Statement provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### 1 Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

This Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies □
- CDS spreads to give early warning of likely changes in credit ratings □
- Sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2018/19 was approved by Full Council on 1st March 2018 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

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

### Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts.

The past due amount can be analysed by age as follows: (see policy xii)

	31 March '19	31 March '18
	£000	£000
Less than three months	1,625	1,507
Three months to six months	545	386
Six months to one year	459	271
More than one year	1,379	1,919
	<b>4,008</b>	<b>4,083</b>

The Council pursues all debts in line with its established debt recovery policy.

## 2 Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

See investment Note 35 and Borrowing Note 36

## 3 Refinancing and Maturity Risk

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

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

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

The maturity analysis of financial liabilities is detailed in Note 36.

## 4 Market Risk

### Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate impact on the Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

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

With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. The balance as at 31 March 2019 is £1.6m.

Based on the current Treasury Management position at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<b>£000</b>
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	112
Increase in government grant receivable for financing costs	de minimus
Surplus on the Provision of Services	de minimus

#### **Impact on Comprehensive I & E Statement**

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

### **5 Price Risk**

The Council, does not generally invest in equity shares or marketable bonds. However, it does hold units in property funds to the value of £20m. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the price of the units.

To limit its exposure to price movements the council has set a property fund investment limit of £20m, at the time of investment.

These units are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Available for Sale Reserve. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £1m gain or loss being recognised in the Available for Sale Reserve.

### **6 Foreign Exchange Risk**

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

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further risks.

## 35. Investments

The Council has sold a majority of its externally managed money market deposits and invested in two property funds, the remaining funds are invested in fixed term deposits. All are valued at fair value.

The Council's investments consists of:

	31 March 2019 £000	31 March 2018 £000
Long term investments	22,118	21,743
Temporary investments:		
Money market fund	-	-
Building Society Deposits	-	-
Bank deposits	26,002	39,695
UK Treasury Securities	-	-
	<b>48,120</b>	<b>61,438</b>

## 36. Borrowing

Due to high rates of interest on the outstanding £7.5 million of external debt and the expected low level of discount rates for maturities, any potential restructuring or premature repayment of debt would be very expensive; as early repayment would attract premiums in excess of £1 million.

Source of Loan	Range of interest rates payable (%)	Total Outstanding	
		31 March 2019 £000	31 March 2018 £000
Public Works Loan Board	8.875	1,522	1,522
Bonds	8.785	6,189	6,189
<b>Total</b>		<b>7,711</b>	<b>7,711</b>
An analysis of loans by maturity is:-			
Maturing within one year		-	-
Maturing in 1-2 years		6,189	-
Maturing in 2-5 years		-	6,189
Maturing in 5-10 years		-	-
Maturing in 10-20 years		-	-
Maturing in 20-30 years		-	-
Maturing in 30-40 years		1,522	1,522
Maturing in 40-50 years		-	-
		<b>7,711</b>	<b>7,711</b>

Refer to notes 12 and 14 to the Core Statements.

## **37. Capital Commitments**

As at 31 March 2019 the Council had no major capital commitments to disclose.

## **38. Contingent Liability**

The Council has identified one contingent liability which may give rise to future costs.

Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liabilities identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

## **39. Post Balance Sheet Event**

There are no post balance sheet events

# THE COLLECTION FUND

## INCOME AND EXPENDITURE ACCOUNT

		2018/19			2017/18		
		£000	£000	£000	£000	£000	£000
		Council Tax	NDR	Total	Council Tax	NDR	Total
Income collectable from Council Taxpayers	Note 2	103,007		103,007	96,139		96,139
Income collectable from Business Ratepayers	Note 3		43,908	43,908	-	44,245	44,245
<b>Total Income</b>		<b>103,007</b>	<b>43,908</b>	<b>146,915</b>	<b>96,139</b>	<b>44,245</b>	<b>140,384</b>
Council Tax Precepts and Demands							
Hertfordshire County Council		78,703		78,703	73,098		73,098
East Herts Council		13,760		13,760	13,151		13,151
Hertfordshire Police		9,775		9,775	8,918		8,918
Business Rates Shares:							
Payments to Government			21,388	21,388		20,566	20,566
Payments to Hertfordshire County Council			4,278	4,278		4,113	4,113
Payment to East Herts Council			17,111	17,111		16,453	16,453
Charges to Collection Fund							
Costs of Collection			198	198		194	194
Bad Debt Provision - Increase:							
Council Tax		247		247	251		251
Non Domestic Rates			563	563		446	446
Non Domestic Rates Appeals Provision	Note 4		165	165		2,038	2,038
Transitional Protection Payment			(607)	(607)		226	226
Distribution of prior years Fund balance		1,979	679	2,658	292	(1,149)	(857)
<b>Total Expenditure</b>		<b>104,464</b>	<b>43,775</b>	<b>148,239</b>	<b>95,710</b>	<b>42,887</b>	<b>138,597</b>
In year Movement in Fund		1,457	(133)	1,324	(429)	(1,358)	(1,787)
Balance as at 1 April		(2,527)	(857)	(3,384)	(2,098)	501	(1,597)
<b>Balance as at 31 March</b>		<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>	<b>(2,527)</b>	<b>(857)</b>	<b>(3,384)</b>
Allocated to :							
East Herts Council		(106)	(396)	(502)	(257)	(343)	(600)
Hertfordshire Police		(111)		(111)	(248)		(248)
Hertfordshire County Council		(853)	(99)	(952)	(2,022)	(86)	(2,108)
Government			(495)	(495)		(428)	(428)
<b>Total</b>		<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>	<b>(2,527)</b>	<b>(857)</b>	<b>(3,384)</b>

## NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

### 1. General

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic Rates.

There is no requirement for a separate Collection Fund Balance sheet, as the assets and liabilities of the fund belong to the various bodies and Government.

In 2013/14 the local government finance regime was revised with the introduction of the Retained Business Rates scheme. The main aim of the scheme is to give Council's a greater incentive to grow businesses in the district. It does, however, also increase the financial risk to the Council due to non collection and the volatility of the NDR tax base.

The retained income scheme allows the Council to retain a proportion of the total NDR income received. The Council's share is 40% with the remainder being split between Hertfordshire County Council (10%) and Government (50%).

### 2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

The tax base for 2018/19 was approved at Full Council on 13 December 2017 and was calculated as follows:

Band	Estimated no. of taxable properties after effect of discounts	Ratio	Band D Equivalent dwellings
A	536.92	6/9	357.95
B	3,969.23	7/9	3,087.18
C	12,133.83	8/9	10,785.63
D	13,633.43	9/9	13,633.43
E	9,993.23	11/9	12,213.95
F	6,996.35	13/9	10,105.84
G	5,146.88	15/9	8,578.13
H	751.82	18/9	1,503.64
	53,161.69		60,265.74
<b>Estimated collection rate</b>			98.9%
<b>2018/19 Estimated Council Tax base</b>			59,602.8
<b>Council Tax Collection</b>			<b>£000</b>
2018/19 estimated Council Tax due			102,238
59,602.8 x £1,715.32 (average band D charge)			
2018/19 Council Tax income			103,007
<b>Surplus</b>			<b>(769)</b>

### 3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform rate (which for 2018/19 was 49.3p (2017/18 47.9p)

The total amount less certain reliefs and allowances is distributed to East Herts Council (40%), Hertfordshire County Council (10%) and Central Government (50%)

When the Retained Business Rates scheme was introduced, the Government set a baseline for each authority identifying the funding required. In order to ensure that each authority receives their base line amount, a top up or tariff amount is applied to each local authority.

East Herts is a tariff authority, which means that it doesn't keep its entire share but is subject to pay a tariff (£15.250m in 2018/19) to Central Government which is when used to fund 'top up' authorities.

The business rates retention scheme provides the opportunity for local authorities to share in the benefits of growth in the rates tax base i.e. provides an incentive for economic development and regeneration. Any income retained from growth is subject to a levy of 50%. Conversely if any Council suffers a significant drop in NNDR due to the loss of one or more major businesses, or a large number of smaller businesses, or a greater than expected loss from revaluations, then a safety net of 92.5% of the baseline applies. At the year end the total non-domestic rateable value was £107.642 million (£114 million for 2017/18).

### 4. Provisions

The Collection Fund account includes provisions for bad debts on arrears based on past years experience and the current years collection rate.

	2018/19			2017/18		
	£000 Council Tax	£000 NDR	£000 Total	£000 Council Tax	£000 NDR	£000 Total
<b>Balance at 1 April</b>	(1,810)	(1,100)	<b>(2,910)</b>	(1,707)	(1,004)	<b>(2,711)</b>
Additional provisions made in year	(247)	(564)	<b>(811)</b>	(251)	(446)	<b>(697)</b>
Provision applied	225	306	<b>531</b>	148	350	<b>498</b>
<b>Balance at 31 March</b>	<b>(1,832)</b>	<b>(1,358)</b>	<b>(3,190)</b>	<b>(1,810)</b>	<b>(1,100)</b>	<b>(2,910)</b>

In addition, a provision has been made for NDR appeals against the rateable valuations assessed and determined by the Valuation Office Agency (VOA) which have not been settled by 31 March 2019.

	2018/19 £000	2017/18 £000
<b>Balance at 1 April</b>	(8,828)	(6,790)
Additional provisions made	(966)	(2,576)
Provision applied in year	801	538
<b>Balance at 31 March</b>	<b>(8,993)</b>	<b>(8,828)</b>

# GLOSSARY OF FINANCIAL TERMS

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising
- Measuring bases
- Presenting

## **Accruals**

Accruals The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **Accumulated Absences**

Accumulated Absences Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.

## **Actuarial Gains and Losses**

Changes in the net pensions liability that arise because

- events have not coincided with assumptions made at the last actuarial valuation, or
- the actuarial assumptions have changed

## **Amortisation**

The term used to refer to the charging of the value of a transaction or asset (usually related to intangible fixed assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for tangible fixed assets.

## **Asset**

An item having value measurable in monetary terms. Assets can either be defined as fixed or current. A fixed asset has use and value for more than one year whereas a current asset ( eg stocks or short term debtors) can readily be converted into cash.

## **Capital Expenditure**

Capital Expenditure Expenditure on the acquisition of a fixed asset or works which have a long term value to the Council, either directly to the Council or indirectly in the form of grants to other bodies.

## **Capital Financing Requirement**

It measures an authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.

## **Capital Receipts**

The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by government, but they cannot be used for revenue purposes.

## **CIPFA**

CIPFA Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.

## **Code of Practice on Local Authority Accounting (The Code)**

Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

### **Community Assets**

Assets that a local authority intends to hold indefinitely, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### **Consistency**

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

### **Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Council's control.

### **Contingent Liability**

A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.

### **Creditor**

An amount owed by the Council for work done, goods received, or services provided within the accounting period and for which payments has not been made at the Balance Sheet date.

### **Current Service Cost (Pensions)**

The increase in liabilities as a result of years of service earned this year.

### **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 employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business.
- 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.

### **Debtor**

Sums of money due to the Council but not yet received at the Balance Sheet date.

### **Deficit**

An excess of expenditure over income (or liabilities over assets)

### **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 unfunded (including notionally funded).

**Depreciation**

Charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing

**DEFRA**

Department for Environment, Food and Rural Affairs

**DWP**

Department for Work & Pensions

**EEDA**

East of England Development Agency

**Expected Rate of Return on Pensions Assets**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Earmarked reserve**

These are funds that are set aside for a specific purpose, or a particular service, or type of service.

**Financial Instruments**

Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local services.

**International Financial Reporting Standards**

International Financial Reporting Standards cover specific aspects of accounting practice and set out the correct accounting treatment. Compliance with them is mandatory.

**Impairment**

This is a reduction in value of a fixed asset as shown in the balance sheet to reflect its true value

**Infrastructure Assets**

Expenditure on works of construction or improvement but which have no tangible value, such as construction or improvement to highways and footpaths.

**Intangible Asset**

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority through custom or legal rights e.g. computer software.

### **Interest Cost (pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **Investments (non-pensions fund)**

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

### **Investment properties**

Property that is used solely to earn rentals and/or for capital appreciation.

### **LAA**

Local Area Agreement

### **Liquid resources**

Current asset investments that are readily disposal by the authority without disrupting its business.

### **MHCLG**

Ministry of Housing, Communities and Local Government (formerly DCLG - Department for Communities and Local Government)

### **MTFP**

Medium Term Financial Plan

### **NDR**

Non Domestic Rates

### **Operating Lease**

A lease whereby the ownership of the fixed asset remains with the lessor.

### **Past Service Cost**

The increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years

### **Revenue Expenditure**

The day to day running costs incurred by the Council in providing its services.

### **REFCUS (Revenue Expenditure Funded from Capital Under Statute)**

Capital expenditure which is allowable under statute to be funded from capital resources but which does not fall within the definition of a fixed asset. An example is a grant made to another party to finance capital investment.

### **Surplus**

An excess of income over expenditure (or assets over liabilities)

# Annual Governance Statement 2018/19

## Introduction

East Hertfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and relevant standards, and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having a regard of value for money.

The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitation the effective exercise of its functions, including arrangements for the management of risk.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

The Annual Governance Statement has been prepared and published in accordance with the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) ('the Framework'). This fulfils the statutory requirement that Local authorities review their governance arrangements at least once a year. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and property accounted for;
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework also expects that local authorities should implement appropriate arrangements for the governance of their affairs in a way that facilitates the effective exercise of functions and ensure that the responsibilities set out above are met.

The diagram below shows how the Council's plans and strategies link together.



### **Meeting the CIPFA/SoLACE Framework Requirements**

The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016;
- a number of specific strategies and processes for strengthening corporate governance

The following sets out how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2018/19.

#### **Principal A      Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Council has a Code of Conduct for elected Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviours to ensure integrity. The Council has three priorities which are:

Priority	Outcomes we want to see
Improve the health and wellbeing of our communities	<ul style="list-style-type: none"> <li>• Residents living active and healthy lives</li> <li>• Support for our vulnerable families and individuals</li> <li>• Communities engaged in local issues</li> </ul>
Enhance the quality of people's lives	<ul style="list-style-type: none"> <li>• Attractive places</li> <li>• Future development best meets the need of the district and its residents</li> </ul>
Enable a flourishing local economy	<ul style="list-style-type: none"> <li>• Support our businesses and the local economy</li> <li>• Vibrant town centres</li> <li>• Working with others, to have achieved the right infrastructure for our businesses and communities</li> </ul>

To support these priorities members and officers receive training in Code of Conduct and behaviour issues. The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.

All officers and Members sign up to the Council's Anti-Fraud, Bribery and Corruption Policy. In addition, the Performance, Audit and Governance Committee receive an annual report setting out the arrangements in place and how these have been applied in practice during the year. The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour and ensuring that any concerns raised are properly investigated.

All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to members.

## **Principal B Ensuring openness and comprehensive stakeholder engagement**

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.

The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.

In addition to local associations, The Council also works closely with town and parish councils to ensure comprehensive involvement in all its decisions.

The Council periodically publishes a newsletter – Network eNewsletter. This is a free publication and is also available online and the Council utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins are created for various communities of interest, such as Businesses and Families.

## **Principal C            Defining outcomes in terms of sustainable economic, social and environmental benefits** **& Principal D        Determining the interventions necessary to optimize the achievement of the intended outcomes**

The Council's strategic vision for East Herts is set out in Our Corporate Strategy Plan. In pursuit of this vision, the Council develops various strategies to define specific outcomes for key service areas. Each Service also plans out how it will deliver the outcomes relevant to its area of work through business plans in accordance with the agreed annual budget. To remain focused on delivering sustainable social and environmental benefits, the Council has a Sustainable Community Strategy as well as a series of more specific strategies. These include the Health and Wellbeing Strategy, The Homeless and Homeless Prevention Strategy, Customer Services Strategy and Disclosure (Whistleblowing).

All service decisions are subject to rigorous scrutiny by the Overview and Scrutiny Committee which includes lead Members. Reviews of options and risk by officers and Members and key performance indicators are in place for all services. These are reported quarterly and include reports to the Performance, Audit and Governance Committee for discussion and considered for intervention where target performance is not being achieved.

Budget proposals are developed by services, challenged and subject to scrutiny by the Leadership Team. The Council regularly engages with other authorities to learn and understand best practice as achieved in other places.

**Principal E            Developing the entity’s capacity, including the capability of its leadership and the individuals within it.**

A key element of the Council’s service planning is to maximise the investment in staff through staff training, including the management development programme to empower and facilitate our senior managers and through them our workforce. All employees are enrolled on the Performance Development Review Scheme (PDRS) which assists employees in creating learning and development plans.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

**Principal F            Managing risks and performance through robust internal control and strong public financial management**

The Risk Management Strategy sets out the Council’s approach to identifying and controlling risk. Risk registers are maintained at a corporate and individual service level with significant risks reported to the Leadership Team and to the Performance, Audit and Governance Committee.

Service outputs, outcomes, and achievements are monitored and reported

The Council has an Anti-Fraud and Anti-Corruption strategy as well as Financial Regulations which set out expected processes and internal controls. The Shared Internal Audit Service (SIAS) team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment.

East Herts Council is developing a reputation for strong financial management. Internal quality assurance processes will be greatly enhanced by implementing the new finance system for financial planning and reporting.

**Principal G      Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.**

All Council decisions are published online together with supporting information to outline why such decisions were taken above comparable options. The Council follows the Government Communication Service guidance on providing clear and accurate information, and has developed its website to improve transparency and accessibility.

The Council reports its financial performance for scrutiny at the Performance, Audit and Governance Scrutiny Committee. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services, and reports performance and finance within the same document for ease of comparison.

**Review of Effectiveness**

Through reviews by external auditors, external agencies, the Shared Internal Audit Service (SIAS) and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised.

Internal Audit activity provided by SIAS is overseen by the Audit Committee and its responsibilities are defined by the Audit Committee through the Internal Audit Charter. The Charter is applicable to all clients of Hertfordshire's SIAS and provides them with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan.

From the internal audit work undertaken in 2018/19, the SIAS can provide the following assurance on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems as follows:



The Council's Head of Strategic Finance and Property has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs, hence the S151 officer relies amongst other sources, upon the work of the internal audit in reviewing the operation of systems of internal control and financial management.

The Council's external auditor, Ernst & Young, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The most recent Audit Letter, issued in July 2018, identified no material errors in the accounts and gave an unqualified opinion. They also concluded that East Herts has put in place proper arrangements to secure value for money in the use of resources.

The Council's Finance Team have undertaken a review to confirm that the principles described above have been in place throughout the year. A Management Assurance Statement, signed by the Heads of Service have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware.

## **Follow up of issues identified in 2017/18**

During 2017/18, the following required enhancements to internal control arrangements were identified as a result of the review or arrangements and by the work of external and internal audit.

<b>Issue</b>	<b>Actions delivered to achieve milestone</b>
Tree Surveying It is recommended that the service is let in accordance with the Council's contract standing orders for future years.	Members formally approved a report in July 2018 that confirmed tree works would be included. We are now working with a procurement consultant to write the specification and Information to Tenderers documents which will describe the size and scope of the tree works.
Disaster Recovery Management should put in place a defined procedure for establishing a single data centre in the event of a loss of synchronisation between the two data centres. These procedures should be incorporated within the IT disaster recovery planning. Furthermore, additional connectivity should be added to the IT network so that the single point of failure for Stevenage Borough Council is addressed.	Actioned and reported to the Shared Service Delivery Board Autumn 2018

### Conclusion

The Council is satisfied that appropriate governance arrangements are in place however, it remains committed to maintaining and where possible improving these arrangements, in particular by:

- addressing the issues identified by Internal Audit as requiring improvement
- embedding the use of covalent to measure performance

# Statement of Responsibilities for the Statement of Account

## The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- To approve the Statement of Accounts.

## The Chief Financial Officers' Responsibilities

The Chief Financial Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- Selected suitable accounting policies and then applied them consistently;
- Make judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

### The Chief Financial Officer has also:

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

## EAST HERTFORDSHIRE DISTRICT COUNCIL Certificate of Responsible Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2019.

Signed . . . .  . . . . Date . . . . .

### I Brittain

Head of Strategic Finance and Property (Chief Financial Officer)  
East Hertfordshire District Council

Signed . . . . . Date . . . . .

### Councillor M Pope

Chairman of Performance, Audit and Governance Committee