

EAST HERTS COUNCIL

Essential Reference Paper 'B'

STATEMENT OF ACCOUNTS

2015/16

STATEMENT OF ACCOUNTS 2015/16

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Introduction to the Statement of Accounts 2015/16 by Councillor Geoffrey Williamson, Executive Member for Finance & Support Services

I am very pleased to introduce you to East Herts Council's Statement of Accounts for the year 2015/16, which again demonstrates the Council's excellent management of its financial resources.

We have been living in an uncertain economic world for some time and this year, as last year and before, we faced hard challenges for managing our finances. The Government's commitment to reduce the national deficit has and will continue to put pressure on funding, and central policy to protect key spending areas such as health, education and international aid has put a disproportionate burden on local government funding. Despite this background, East Herts Council was able to produce a balanced budget that allowed levels of service to be maintained, without the necessity to raise Council Tax. Indeed 2015/16 was the fifth successive year the Council has either held or reduced its Council Tax charges.

In statements from the Chancellor over the last year we have heard various initiatives that will affect local government financing in the future, including changes to the New Homes Bonus scheme and to Business Rates retention, and the phased withdrawal of Revenue Support Grant, which together create an unsettled backdrop against which we have to plan our finances for future years.

Therefore we adopted this year a new approach to producing integrated strategic and financial plans to ensure that our resources are best targeted at our priorities. Following an in-depth service-by-service review, a new Corporate Strategic Plan has been formulated which encompasses the chosen priorities for the Council for the coming year and beyond. Taking this approach has ensured that our budgets are designed around the delivery of our Corporate Priorities through our agreed Service Plans.

One of the outcomes of the process was a clear desire for the Council to take a more commercial direction. With funding from central government reduced it is open for the Council to look further elsewhere for sources of income, and in line with the approach now being taken by other local authorities we have been exploring ways we can invest directly into projects, taking a more commercial stance and adopting a role that has traditionally been left to the private sector, and looking to use our financial resources in the best way to get the optimum return. Hence in 2015 we took the opportunity to purchase the Old River Lane site in Bishop's Stortford, which incorporates commercial office accommodation and town centre car parking, which is already providing excellent returns. At the same time our control of this site allows us to take a long-term view on how it should develop, and consider a wider and more holistic approach to how any such development should integrate with future planning within Bishop's Stortford town centre.

Our shared services with Stevenage Borough Council are now well proven with our Shared Revenues and Benefits Service continuing to give us more resilience and allowing us to respond to welfare reform changes more quickly and efficiently. Meanwhile our Shared IT Service has produced significant savings across the two councils whilst there has been significant progress in the updating of our IT systems to the benefit of our staff and our

customers. The wider Shared Internal Audit Service is well established and the Shared Anti-Fraud Service has been introduced recently, both are proving their worth, and indeed the latter has been picked up by central government as an exemplar of how local authorities can tackle fraud more effectively.

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, the Audit & Governance Committee and our External Auditors for their respective roles in preparing and closing these accounts.

Councillor Geoffrey Williamson, Executive Member for Finance & Support Services

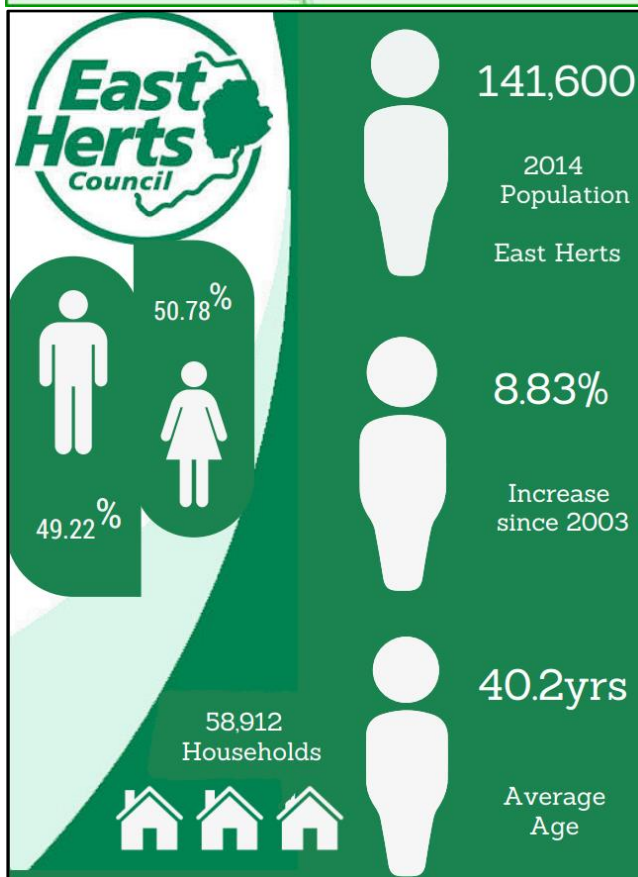
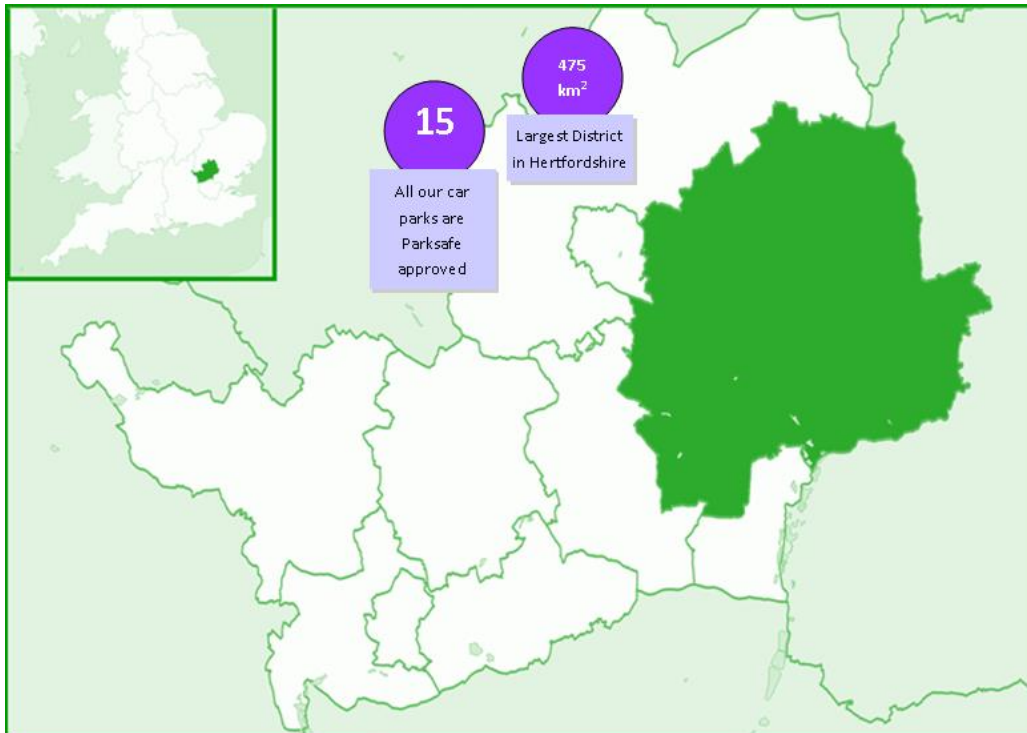
AN INTRODUCTION TO EAST HERTS

East Herts is a vibrant district, the largest 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 village or hamlets scattered across the district with over 141,000 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 heritage centres spread across the district, in its rural villages as well as its town centres.

The employment rate in East Herts is high, with 79% of the district's population in employment, in comparison to 72% nationally whilst over a third of people are educated to degree level or higher.

House prices are among the highest in the country; latest figures show that the average property price was £366,300. This compares to an average of £265,300 in England. There is, however, a shortage of affordable housing in the district.



CHIEF FINANCIAL OFFICER'S REPORT

The 2015/16 financial year has seen a number of changes to the approach taken by the finance team. The team have worked with service managers to ensure that budget

monitoring throughout the year has been robust and have engaged with the whole organisation as service plans were aligned with the medium term financial plan. The finance team have also delivered a number of reports earlier in the corporate timetable to report to stakeholders at the earliest opportunity.

The Council has made a number of significant investments which are referred to throughout the accounts. We have invested in property investment funds and also in direct property, most notably the purchase of a site on Old River Lane in Bishop's Stortford.

Our accounts demonstrate that East Herts is a well-run council with a solid financial standing. We recognise that whilst there is significant uncertainty around the funding of local government in the near future we are prepared to weather the transition towards being financially self-sufficient.

EAST HERTS COUNCIL PERFORMANCE

How we performed

For 2015/16 our vision was:

'To improve the quality of people's lives and preserve all that's best in East Herts'

Our vision was supported by three **PRIORITIES** and some examples of how the council has performed against them are detailed below.

PEOPLE	PLACE	PROSPERITY
Fair and accessible services for those who use them and opportunities or everyone to contribute	Safe and clean	Improving the economic and social opportunities available to our communities
<ul style="list-style-type: none"> Launched our three year sports and leisure programme for the over 50s called 'Forever Active in East Herts'. 	<ul style="list-style-type: none"> Reused, recycled or composted 49% of our waste. This level was the same as 2014/15 which is good performance considering this year saw a higher volume of waste being presented as a result of the growing national economy. 	<ul style="list-style-type: none"> For the sixth year running the council cut or froze its share of the council tax bill.
<ul style="list-style-type: none"> Following the success of the time bank scheme in Buntingford and in partnership with North Herts Community 	<ul style="list-style-type: none"> Retained our Green Flag awards for our parks at The Ridgeway in Hertford (for the seventh year running) and Southern 	<ul style="list-style-type: none"> Purchased Old River Lane (a key site in Bishop's Stortford town centre) to ensure income and regeneration

Voluntary Service, we launched East Herts Time Bank in Sawbridgeworth, Ware, Hertford and Bishop's Stortford.	Country Park in Bishop's Stortford (for the eighth year running).	opportunities for the town.
<ul style="list-style-type: none"> Offered free dementia awareness sessions for residents, businesses and students across the district in order for people to understand more about dementia and ways in which carers and those who are living with the condition can be helped. 	<ul style="list-style-type: none"> Granted planning permission for the development of up to 2,200 homes and related infrastructure at Bishop's Stortford North. As well as affordable housing, the developers will provide £53.8m of transportation and social infrastructure. 	
<ul style="list-style-type: none"> Exceeded our performance target of 10 calendar days to process housing benefit applications by bringing the average processing time down to 9.73 days. 		

Resident Satisfaction

Our recent resident survey confirmed that residents are satisfied with the quality of services delivered by the council:

- 69% of residents were satisfied with the way the council runs things. This is close to the 2013 level of 70%.
- Four fifths of residents or more are satisfied with the service for collection of waste (refuse) overall (79%) and the service for the collection of items for recycling and composting overall (79%).
- 7 in 10 residents (72%; 70% in 2013) reported that they feel safe in their local area after dark, while under a fifth (17%; 17% in 2013) said they feel unsafe. By comparison, during the day almost all residents (95%; 94% in 2013) reported feeling safe in their local area.
- The proportion of residents that feel that crime and anti-social behaviour is a big problem in their local area has significantly decreased since 2013. For example, vandalism, graffiti and other deliberate damage to property or vehicles, noisy neighbours or loud parties, people being drunk or rowdy in public places and groups hanging around the streets.

The full annual report setting out our achievements for 2015/16 will be presented to Corporate Business Scrutiny in August 2016 and Executive in September 2016.

What next?

For 2016/17 the council revised its four year corporate strategic plan and launched a new **VISION** and **THREE NEW PRIORITIES**. The 2016/17 Corporate Plan sets out the strategic direction and priorities for East Herts Council over the next four years. It describes what we will do to ensure the best possible services are delivered for our residents, partners and businesses at a time of change for councils. The vision, three priorities and supporting outcomes are:

<i>“To preserve the unique character of East Herts and ensure it remains one of the best places to live and work”</i>		
Priority 1 – Improve the health and wellbeing of our communities	Priority 2 – Enhance the quality of people’s lives	Priority 3 – Enable a flourishing local economy

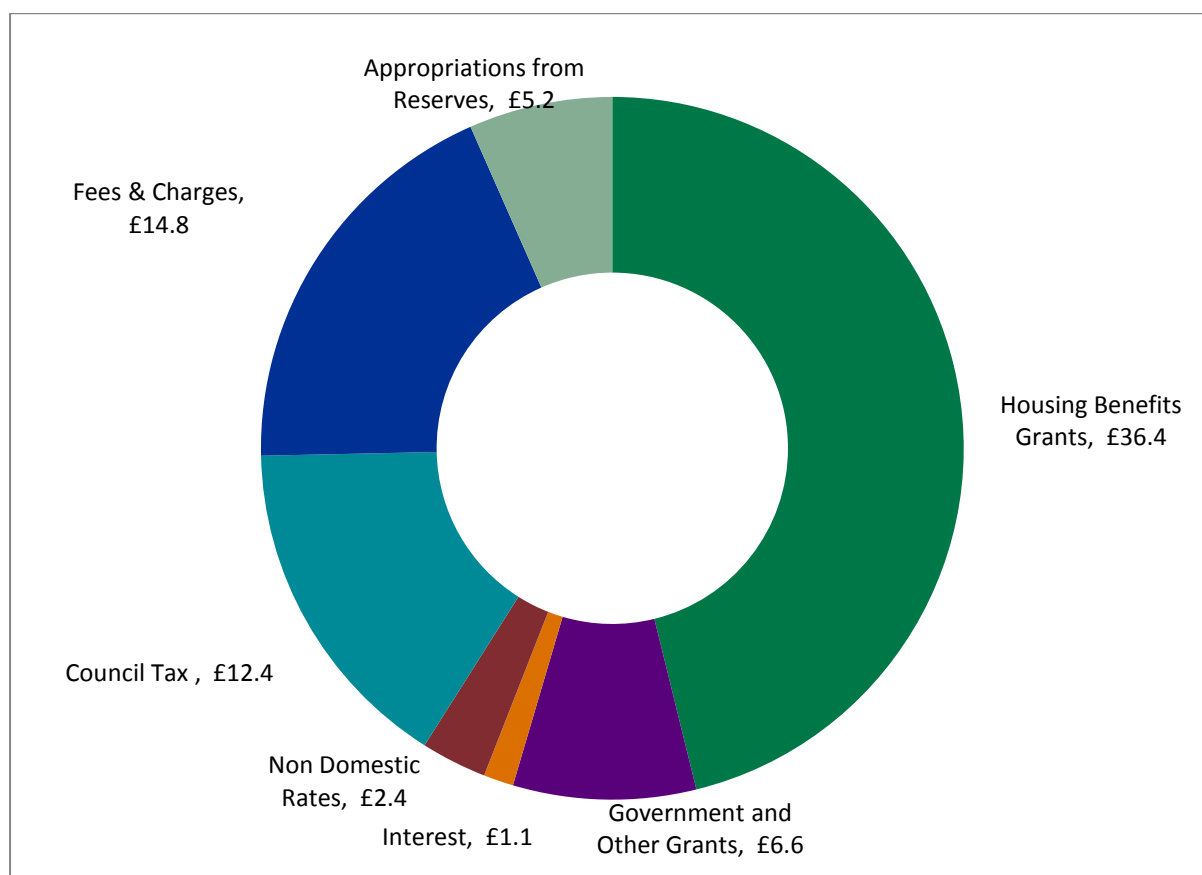
Residents living active and healthy lives	Attractive places	Support for our businesses and the local economy
Support for our vulnerable families and individuals	Future development best meets the need of the district and its residents	Vibrant town centres
Communities engaged in local issues		Working with others, to have achieved the right infrastructure for our businesses and communities

Progress against the council’s corporate strategic plan will be monitored every six months and reported to Corporate Business Scrutiny and Executive throughout 2016/17.

FINANCIAL PERFORMANCE IN 2015/16

An annual net budget of £15.023m was set by Council in February 2015 to deliver services in 2015/16. The three charts which follow show where the Council’s money comes from, what it is spent on and what services are provided.

Where the money comes from (£m)



This pie charts illustrates the sources of funding for the council. As shown nearly half of the council's income comes from Housing Benefit grants from central Government. This is utilised to fund the payment of Housing Benefits to claimants.

Fees and charges is the second largest source of funding for the council. The £14.8m in 2015/16 includes:

- £2.9m income collected through the Councils 26 pay and display car parks across the district
- £1.1m rental income from the leasing of Council owned assets
- £1.5m income from planning and building control fees
- £859k income generated from Hertford Theatre, through ticket sales and the café at the Theatre
- £932k recycling income, from sale of recyclable materials and credits from the County Council for waste recycled rather than being sent to landfill
- £2.7m contributions from other authorities, including the Revenues and Benefits shared service with Stevenage Borough Council and joint parking enforcement contract with Stevenage Borough Council and Welwyn Hatfield Council.

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 Authority. Of the income collected the Councils share in 2015/16 was £12.4m; £3.6m 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.

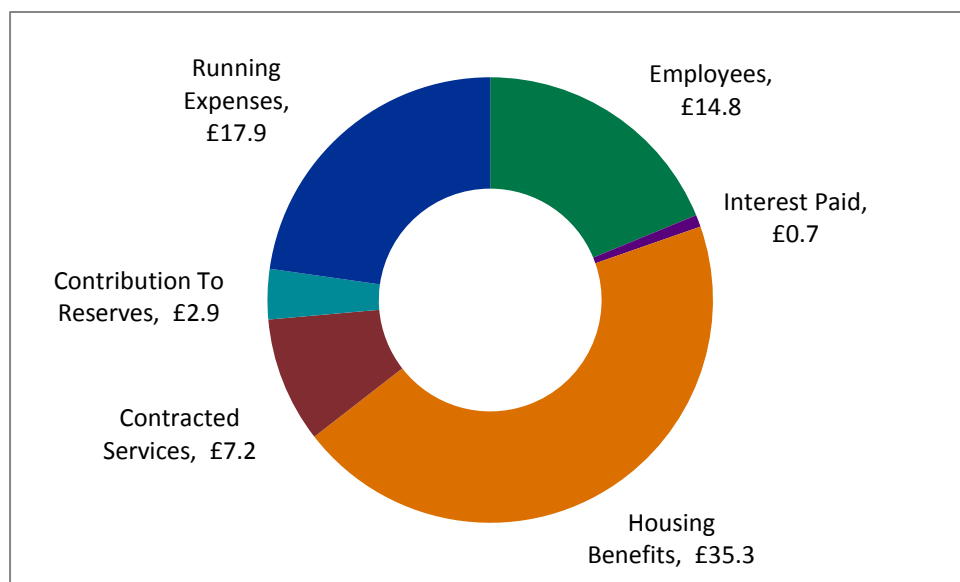
East Herts Council is also the billing authority for Non Domestic Rates (Business Rates) collected from businesses across the district this is then distributed to Central Government, East Herts Council and Hertfordshire County Council. After distribution and payment of tariffs the income attributable to East Herts totalled £2.4m in 2015/16.

In 2015/16 East Herts Council received £6.6m in government and other grants to fund services. This included £2.8m of New Homes Bonus, which is a Government scheme aimed at encouraging local authorities to grant planning permission in return for additional revenue and £2.1m of Revenue Support Grant.

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 2015/16 £5.2m of reserve funding was utilised.

The Council earned Interest and Investment income of £1.1m in 2015/16 on its portfolio of investments and holdings in property funds.

How the money is spent (£m)

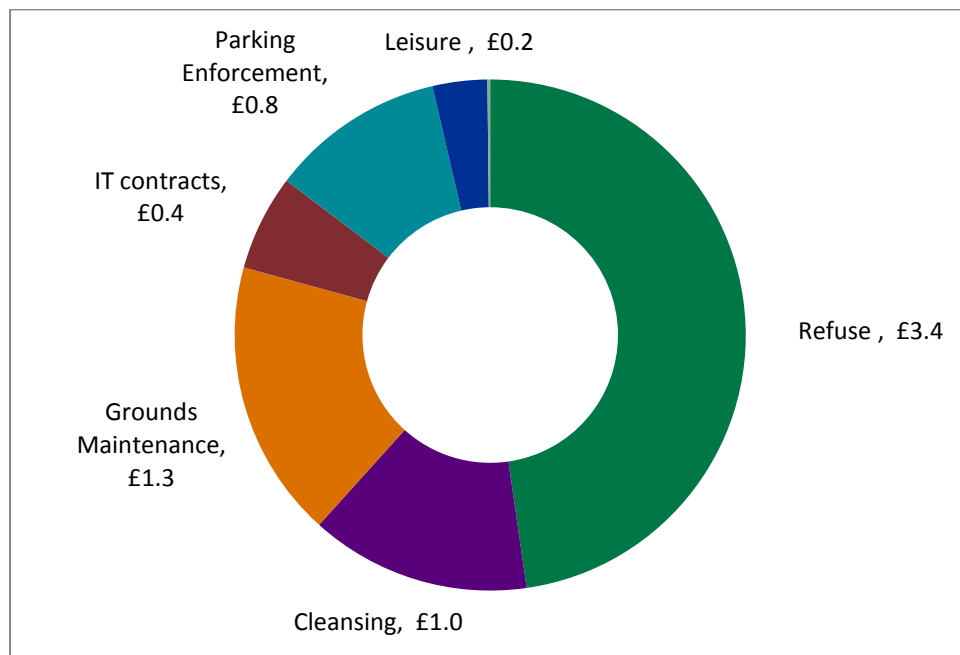


The pie chart above shows what the council spent in 2015/16. Housing benefits make up the largest outgoing of the Council. The difference (£1.1m) between the amount of housing benefits received and paid is a result of timing differences between receiving the funding and paying recipients.

Included in the running expenses figure of £17.9m is the following expenditure:

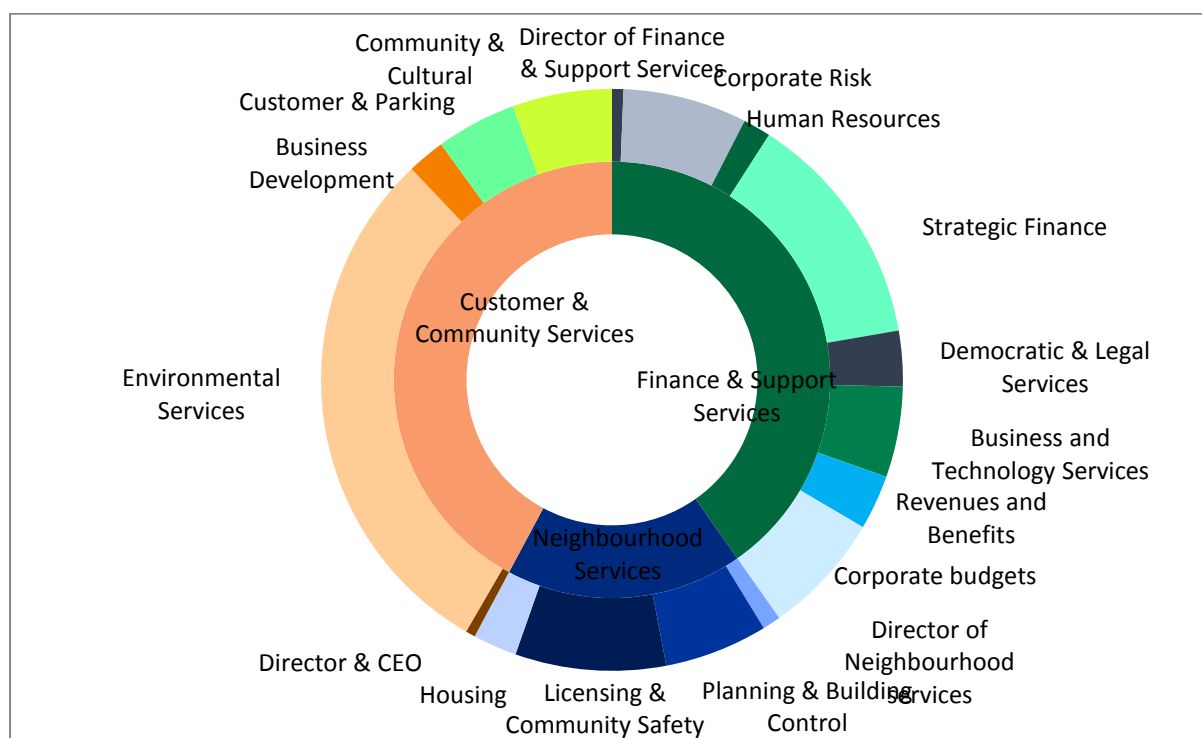
- Payments of precepts to Town and Parish councils of £3.6m
- £2.9m of premises related costs, including property maintenance, rates, insurance and utilities costs for all the Councils buildings, car parks, theatre and leisure facilities.
- £5.7m supplies and services
- £2.5m third party payments and grants.

A breakdown of the Councils main contracts is shown in the chart below



In 2015/16 contributions totalling £2.9m were made to the councils earmarked reserves to meet potential future liabilities.

The services provided



FINANCIAL MANAGEMENT

Revenue

Comparison of Actual Expenditure and Income against Budget:

The setting of the 2015/16 budget and Medium Term Financial Plan (MTFP) took place in an environment of high uncertainty and risk. Anticipated falling public sector spending up to 2018 and uncertainty around the result of the May 2015 general election led to the expectation of reduced resources for Local Government. East Herts Council was in a reasonably healthy financial position compared to some other local Authorities. Careful management of the level and use of the Councils Reserves in future years was anticipated.

The budget report and Medium Term Financial Plan (MTFP) for 2015/16 to 2018/19 was approved at Council in February 2015.

In 2015/16 East Herts reduced its proportion of Council Tax by 1%, having frozen it in 2014/15 and reduced it by 1% in 2013/14. Prior to this the Council’s proportion of council Tax had been frozen since 2010/11. A further freeze has been approved for 2016/17. Central Government have changed their assumptions on Council Tax levels from 2016/17 onwards and their expectation is that all Local Authorities will increase Council Tax by at least 1.6% each year and have allowed all District Councils to increase Council Tax by up to £5 each year before requiring a local referendum.

The Net Cost of Services budget for 2015/16 was set at £15.023m, Corporate budgets of £1.845m (including a contingency budget, annual contribution to the pension fund and

interest and investment income budgets) with contributions from reserves of £1.687m and funding of £6.38m.

Movements against budgets are monitored by Senior Management throughout the year and reported to the Executive on a quarterly basis.

The outturn position for 2015/16 was reported to Executive in June 2016 and shows an underspend against Net Cost of Service budgets of £0.433m, an underspend against corporate budgets of £0.546m and an increased use of reserves of £0.541m.

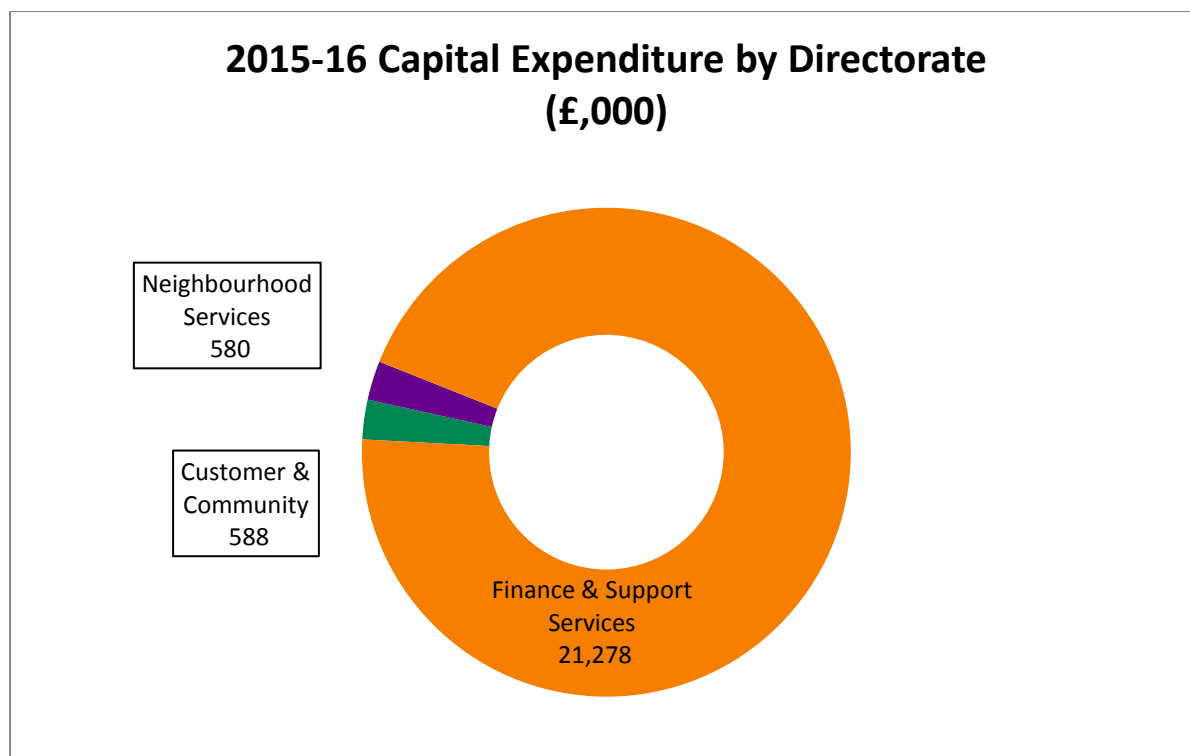
During 2015/16 the decision to invest in a site on Old River Lane in Bishop's Stortford was approved by Council. This investment opportunity arose during the year and therefore wasn't included in the budgets approved in February 2015. The impact on revenue budgets in 2015/16 resulted in net investment income of £477k which has been transferred to the Commercial Property fund Reserve to fund future development costs. There was also an unbudgeted use of reserves to fund the purchase of the site. Details about the capital expenditure and financing can be found in note 5 to the Statement of Accounts.

FINANCIAL MANAGEMENT

Capital

Capital expenditure relates to the acquisition or enhancement of assets which generates a benefit for a period of more than one year. This differs to the Revenue expenditure, discussed in section 3 of the Narrative Statement, which is defined as money that the authority spends or receives in the same year that the services are delivered.

During 2015/16 the Council incurred expenditure of £22.446m on capital projects, compared with an original capital programme budget of £2.719m . During the year the Council decided to purchase a site on Old River Lane in Bishop's Stortford for £19.55m plus associated costs. The investment opportunity presented itself during the 2015/16 financial year therefore wasn't included in the original budget.



Examples of capital expenditure in 2015/16

Old River Lane, £19.55m - The purchase of the site in Bishop’s Stortford completed on 13 October 2015. The Council was involved in a competitive process to acquire the site where a good level of interest was shown from property companies and institutional investors. An external market valuation by an experienced, qualified RICS Registered Valuer confirmed the valuation at the price agreed.

The purchase was treated as an investment decision, representing good value for money, delivering a return on investment in excess of 5%. The Old River Lane site is made up of the freehold interest of 5 constituent parts. The Council now owns the following key assets:

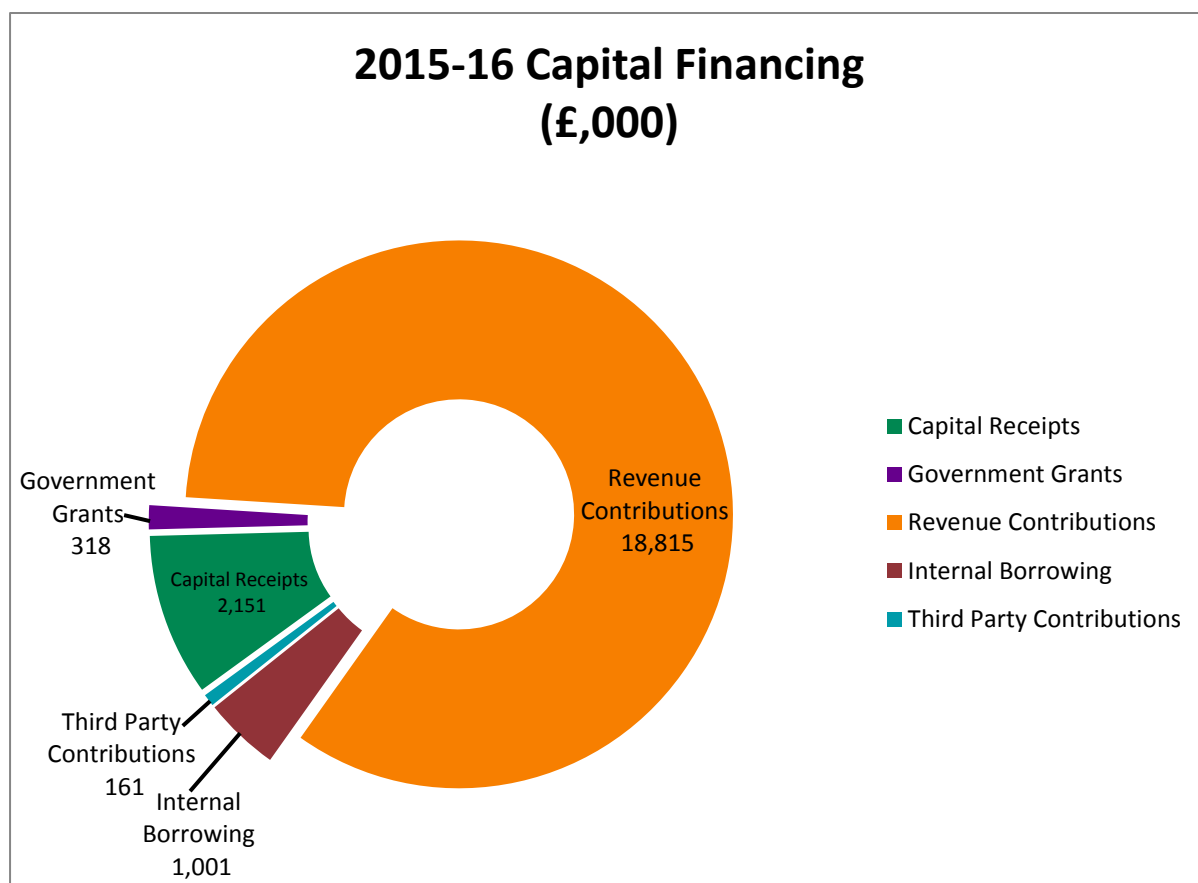
- Charrington’s House; a multi-let office with 8 suites over 4 floors
- No 1, The Causeway; a vacant office building
- The Causeway Car Park; a surface car park with 242 spaces
- The Waitrose Car Park; a surface car park with 160 spaces
- 1, 2 and 3 Old River Lane; 3 residential properties

Community Capital Grants, £91k - To provide the right tools for people to get involved with projects that improve facilities such as green spaces or community buildings – inspiring ownership and pride.

Buryfield Recreation Ground, Ware £58k - Installation of play area to encourage healthy activity for younger children, partially funded through section 106 contributions.

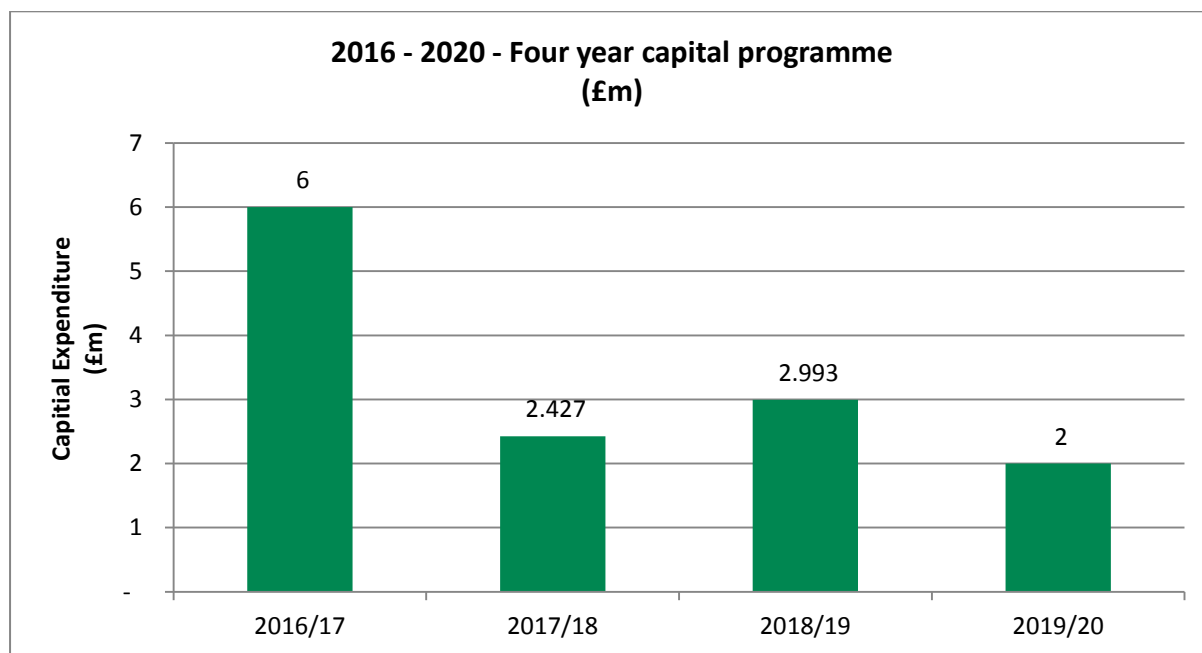
Southern Country Park, Bishop's Stortford, £80k- Boardwalk installation across balancing pond to improve the functionality & attractiveness of this Green Flag award winning park, partially funded through section 106 contributions.

The largest source of funding for the 2015/16 capital programme is Revenue contributions from cash reserves. The Investment Strategy, approved in February 2014, approved that up to a third of the Councils cash balances could be used for direct property investment. Other sources of funding are shown in the chart below:



Four year capital Programme

The Council has a four year capital programme totalling £13m.



Examples of future capital schemes:

Future Social Housing schemes, £821k

Capital scheme to increase the provision of affordable housing across the district.

New Financial Management system, £300k

To re-procure finance systems contract and implement new finance system. With an aim to provide increased efficiency in key processes throughout the organisation.

Parks and open spaces, £955k

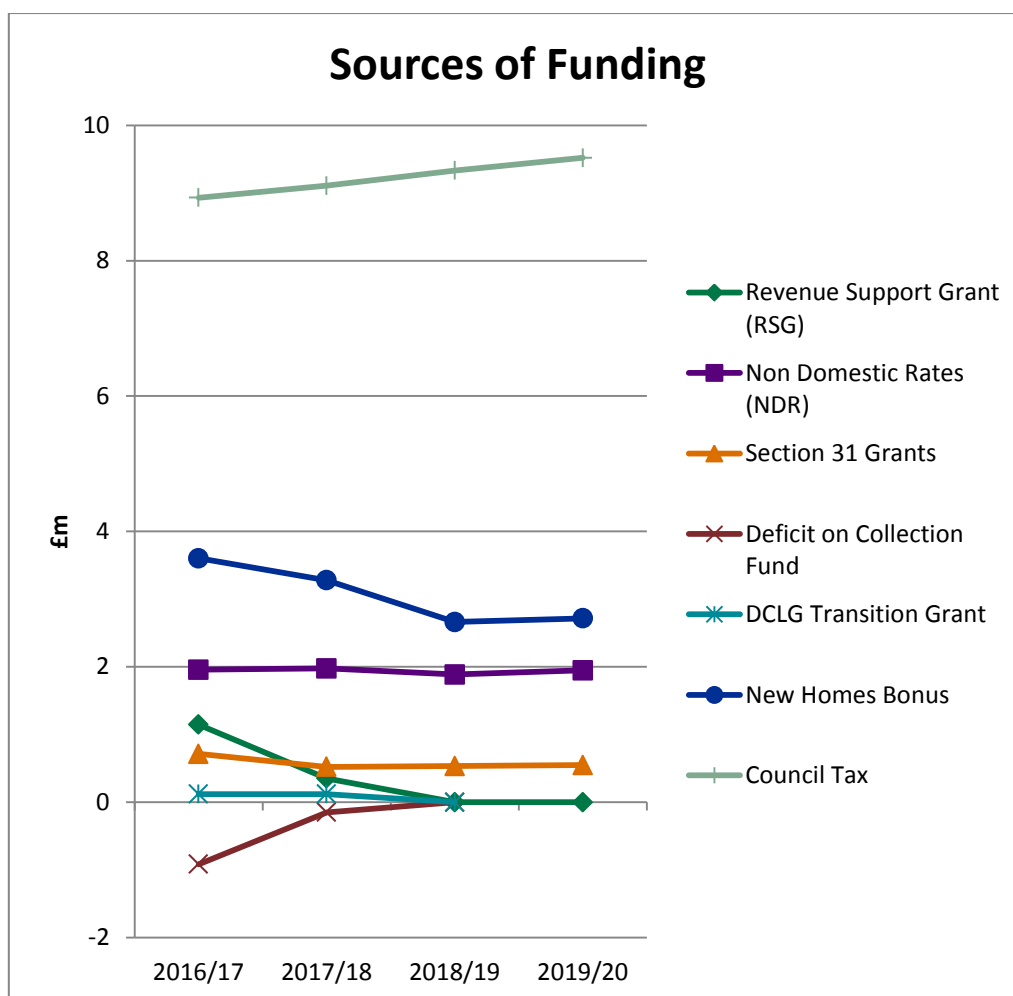
Improvements to open spaces across the district and installation of new play equipment.

Disabled Facilities and Decent Homes Grants, £3.154m

Disabled Facilities Grants are to adapt homes to make them more suitable for disabled people to live in and manage independently

MEDIUM TERM FINANCIAL PLAN

The Council has modelled its Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 against a backdrop of continued austerity in public expenditure. Recent Government spending reviews have signalled a continuation of funding reductions in future years this includes the phased withdrawal of the Revenue Support Grant (by 2018/19), consultations around the levels of New Homes Bonus and the move to 100% Business Rates Retention. The table below shows the level of funding over the term of the MTFP:



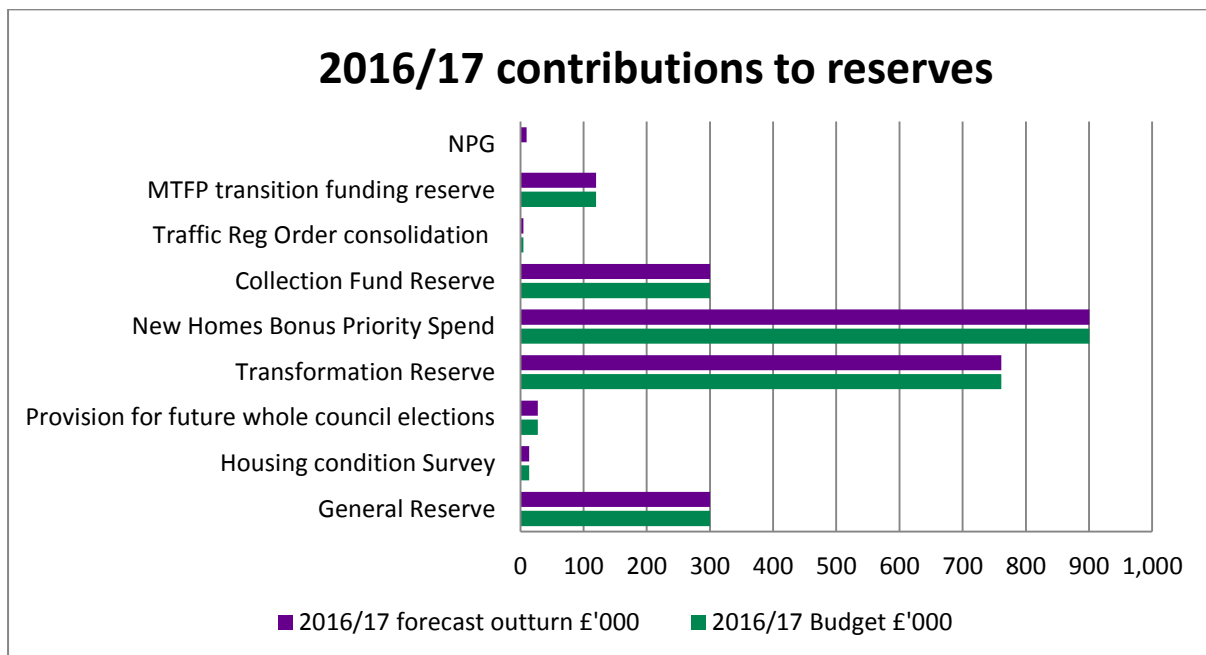
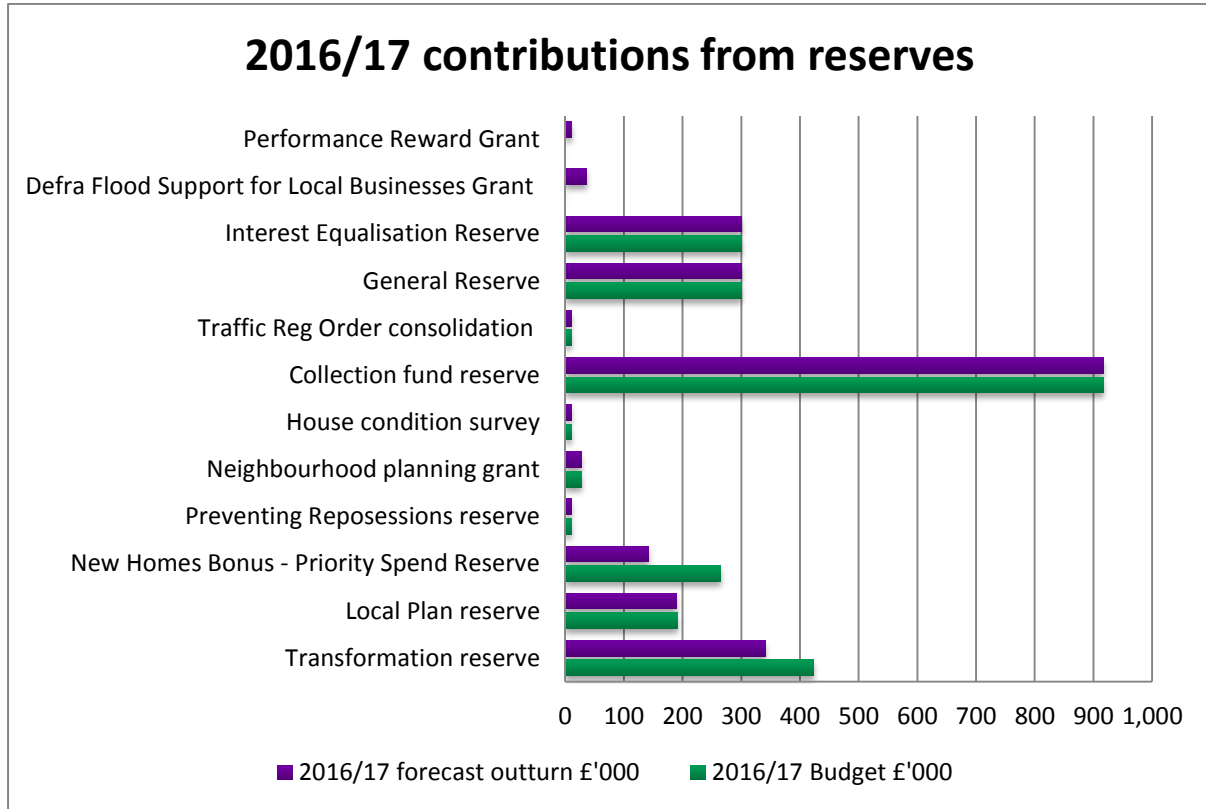
The Council has continued to plan to achieve ongoing efficiency savings in order to be able to set affordable and sustainable budgets in the medium term. Consideration is also being given to how we make our money and other assets work harder to generate additional income. The level of savings to be found, over the next 4 years are shown below:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	TOTAL £'000
Cumulative Efficiency Savings - MTFP	-	(728)	(1,449)	(1,338)	(1,338)
To be achieved by:					
Efficiency Savings – Permanent	-	(728)	(610)	-	(1,338)
Efficiency Savings – One-off: Net	-	-	(111)	-	(111)

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.

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.

In light of the uncertainty in public sector funding over the medium to long term, the planned use of the Councils reserves is a key element of the councils Financial Strategy. Shown below is the budgeted use of reserves for 2016/17.



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 31st March 2016 is £28.796m which is a decrease of £5.546m compared to the position at 31st March 2014. In 2015/16 the Council made an additional contribution to the Pension fund of £1m. This, along with an increase in the present value of fund assets, has gone towards reducing the deficit position.

Further information is given in note 32

EXPLANATION OF ACCOUNTING STATEMENTS

Statement	Explanation	Page No
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 authority in the year.	
Balance Sheet	Sets out the financial position of the Council on 31 March 2016	
Cash Flow Statement	Summarises the Council's inflows and outflows of cash for the year 2015/16	
Notes to the Accounts	Provide 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 has been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the 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 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 accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2016	

STATEMENT OF ACCOUNTS 2015/16

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
Balance at 31 March 2014		3,854	8,374	0	420	4,241	16,889	64,347	81,236
Movement in reserves during 2014/15									
Deficit on provision of services		(2,022)	-	-	-	-	(2,022)	-	(2,022)
Other Comprehensive Income and Expenditure		-	-	-	-	-	0	(1,754)	(1,754)
Total Comprehensive Income and Expenditure		(2,022)	-	-	-	-	(2,022)	(1,754)	(3,776)
Adjustments between accounting basis and funding basis under regulations	Note 4	4,539	-	1,275	(47)	-	5,767	(5,767)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		2,517	-	1,275	(47)	-	3,745	(7,521)	(3,776)
Transfers to/(from) Earmarked Reserves	Note 5	(2,517)	5,445	-	-	(2,928)	0	-	0
Increase/Decrease in Year		0	5,445	1,275	(47)	(2,928)	3,745	(7,521)	(3,776)
Balance as at 31 March 2015 carried forward		3,854	13,819	1,275	373	1,313	20,634	56,826	77,460

		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
Balance at 31 March 2015		3,854	13,819	1,275	373	1,313	20,634	56,826	77,460
Movement in reserves during 2015/16									
Deficit on provision of services		#####	-	-	-	-	(12,878)	-	(12,878)
Other Comprehensive Income and Expenditure		-	-	-	-	-	0	13,953	13,953
Total Comprehensive Income and Expenditure		#####	-	-	0	-	(12,878)	13,953	1,075
Adjustments between accounting basis and funding basis under regulations	Note 4	10,537	-	(1,275)	(8)	-	9,254	(9,254)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		(2,341)	-	(1,275)	(8)	-	(3,624)	4,699	1,075
Transfers to/(from) Earmarked Reserves	Note 5	2,341	(2,217)	-	-	(124)	0	-	0
Increase/Decrease in Year		0	(2,217)	(1,275)	(8)	(124)	(3,624)	4,699	1,075
Balance as at 31 March 2016 carried forward		3,854	11,602	0	365	1,189	17,010	61,525	78,535

STATEMENT OF ACCOUNTS 2015/16

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.

	2015/16			2014/15
	Gross Exp £000	Gross Income £000	Net Exp £000	Net Exp £000
Central Services to the Public	3,280	(1,310)	1,970	1,361
Cultural & Related Services	6,248	(1,592)	4,656	3,667
Environmental & Regulatory Services	9,711	(3,207)	6,504	6,397
Planning & Development Services	8,710	(2,263)	6,447	2,517
Highways and Transport Services	5,935	(4,718)	1,217	(313)
Other Housing Services	40,953	(38,275)	2,678	3,058
Corporate & Democratic Core	2,568	(14)	2,554	2,200
NET COST OF SERVICES			26,026	18,887
Payments of precepts to parishes			3,564	3,492
Payments of housing capital receipts to Government			1	2
Gain on disposal of non current (fixed) assets			(801)	(1,222)
OTHER OPERATING EXPENDITURE			2,764	2,272
Interest payable and similar charges			686	694
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			1,057	1,266
Interest receivable and similar income			(1,089)	(741)
Income from investment properties (Note 9)			(595)	(513)
Direct expenditure incurred on investment properties (Note 9)			47	447
Changes in Fair Value of Investment Properties			4,402	0
Gain on disposal of investment properties			0	0
Other Investment			37	0
FINANCING AND INVESTMENT EXPENDITURE			4,545	1,153
Recognised capital grants and contributions			(177)	(415)
Council tax income			(12,483)	(12,325)
Non domestic rates			(2,017)	(1,101)
Non service related government grants			(5,780)	(6,449)
TAXATION AND NON-SPECIFIC GRANT INCOME (Note 28)			(20,457)	(20,290)
DEFICIT ON PROVISION OF SERVICES			12,878	2,022
Revaluation Gains			(8,866)	(569)
Impairment losses (chargeable to Revaluation Reserve)			646	361
Remeasurements of the net defined benefit liability (Note 32)			(6,122)	2,143
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			(14,342)	1,935
(Surplus) / Deficit on revaluation of available for sale financial assets (Note 11)			389	(181)
ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			389	(181)
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			(13,953)	1,754
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			(1,075)	3,776

All operations arise from continuing activities.

STATEMENT OF ACCOUNTS 2015/16

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 '16		31 March '15
		£000	£000	£000
Property, Plant & Equipment	Note 6			
- Other land and buildings		40,196		30,839
- Vehicles, plant, furniture and equipment		5,145		6,075
- Infrastructure assets		2,837		3,013
- Community assets		2,345		1,846
- Surplus assets		2,407	52,930	-
Investment Properties	Note 9	14,794		8,688
Intangible Assets	Note 10	527	15,321	510
			68,251	50,971
Long Term Investments	Note 34	19,944		7
Long Term Debtors	Note 14	1,153	21,097	1,156
TOTAL LONG TERM ASSETS			89,348	52,134
Assets Held for Sale	Note 16	0		330
Short Term Investments	Note 34	10,539		56,777
Short Term Debtors	Note 14	6,486		8,392
Cash and Cash Equivalents	Note 15	23,700		13,245
CURRENT ASSETS			40,725	78,744
Provisions	Note 18	(2,652)		(2,641)
Bank Overdraft		(1,428)		-
Short Term Creditors	Note 17	(7,029)		(5,058)
CURRENT LIABILITIES			(11,109)	(7,699)
Provisions	Note 18	(36)		(36)
Long Term Borrowing	Note 35	(7,711)		(7,710)
Long Term Creditors	Note 17	(304)		(987)
Deferred credits	Note 36	0		(2)
Net Pension Liability	Note 20	(28,795)		(34,342)
Grant Receipts in Advance - Capital	Note 28	(2,303)		(1,869)
- Revenue		(1,280)		(773)
LONG TERM LIABILITIES			(40,429)	(45,719)
NET ASSETS			78,535	77,460
USABLE RESERVES				
- General Fund	Note 19	3,854		3,854
- General Reserve	Note 19	1,189		1,313
- Earmarked Reserves	Note 5	11,601		13,819
- Capital Receipts Reserve	Note 19	0		1,275
- Capital grants Unapplied	Note 19	366		373
			17,010	20,634
UNUSABLE RESERVES				
- Revaluation Reserve	Note 20	11,550		3,656
- Available-for-Sale Reserve	Note 20	(282)		107
- Pensions Reserve	Note 20	(28,795)		(34,342)
- Capital Adjustment Account	Note 20	81,256		90,727
- Deferred Capital Receipts	Note 20	154		155
- Collection Fund Adjustment Account	Note 20	(2,223)		(3,342)
- Short-term Accumulating				
Compensated Absences Account	Note 20	(135)		(135)
			61,525	56,826
TOTAL RESERVES			78,535	77,460

STATEMENT OF ACCOUNTS 2015/16

THE CASH FLOW STATEMENT

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

	2015/16		2014/15
	£000	£000	£000
OPERATING ACTIVITIES			
Cash Inflows			
Council Tax receipts	(9,051)		(9,226)
NNDR Receipts	(17,637)		(17,280)
Revenue Support Grant	(2,057)		(2,816)
DWP grants for benefits	(37,277)		(36,049)
Other Government grants	(4,023)		(3,853)
Cash received for goods and services	(13,762)		(12,160)
Interest received	(812)		(855)
Cash inflows generated from operating activities	(84,619)		(82,239)
Cash Out Flows			
Cash paid to and on behalf of employees	14,802		13,341
Housing Benefit paid out	34,178		34,840
Other operating cash payments	18,342		19,227
Precepts paid to other authorities	3,564		3,492
Interest paid	660		661
Cash outflows generated from operating activities	71,546		71,561
Net Cash Inflow from operating activities		(13,073)	(10,678)
INVESTING ACTIVITIES			
- Purchase of property plant and equipment, investment property and intangible assets	21,732		1,153
- Other payments for investing activities	1		2
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(877)		(2,409)
- Capital grants	(905)		(771)
- Proceeds from short-term and long-term investments	(26,301)		4,954
Net cash inflow from investing activities		(6,350)	2,929
FINANCING ACTIVITIES			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	287		279
- Other payments for financing activities	10,109		11,565
Net cash outflow from financing activities		10,396	11,844
Net (increase) or decrease in cash and cash equivalents		(9,027)	4,095
Cash and cash equivalents at the beginning of the reporting period		(13,245)	(17,340)
Cash and cash equivalents at the end of the reporting period		(22,272)	(13,245)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i. The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SeRCOP) 2015/16, 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. 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.

iii. 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 months 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.

iv. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

v. **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.

vi. **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 4.5%. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

vi. Employee Benefits - continued

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 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 Hertfordshire County Council, Corporate Services, County Hall, Hertford, SG13 8DQ.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

vii. 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.

viii. 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 2015 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 5 to the Notes to the Core Statements.

No other financial guarantees were identified in 2015/16.

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

viii. Financial Instruments - continued

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

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-ringfenced 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-ringfenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

x. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xi. 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.

xii. Investment Property

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.

Rentals 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.

xiii. 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 Lessee

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xiii. Leases - continued

Operating Leases

Rentals 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.

xiv. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The basis of allocation used for the main areas is outlined below:

<u>Cost</u>	<u>Basis of allocation</u>
Support Services	Actual time spent by staff
Administrative Buildings	Area occupied
Information Technology	Time spent/actual use

xvi. 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, surface car parks (see Note 6) and Hertford Theatre have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.

Operational specialised property – 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.

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NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant & Equipment

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2010 the Council has revalued its assets on a four year rolling basis (formerly five 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 an external valuer, Guy Harbord MA MRICS IRRV

- 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

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 as at 31 March 2016. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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.

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	20 years
Equipment, Furniture and Fittings	5 to 10 years
Community Assets	No depreciation (30 years for exceptions)
Non operational assets	60 years
Enhancement to leased properties	10 to 25 years
Plant	10 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 £50k 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).

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xvii. 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 Benefit 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
N Domestic Rates costs	- 25% against arrears
Council Tax costs	- 20% against arrears

xviii. 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.

xix. 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.

xx. 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xxi. 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.

xxii. 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 in holding these assets is in pursuit of its overall objectives in relation to the maintenance of heritage.

The Council does not consider that a commercial value can be placed upon the assets held given their nature and that it would be inappropriate to use an insurance value for the balance sheet purposes. Consequently these assets have not been recognised separately on the balance sheet but continue to be included within community assets at a nominal value.

Accounting note 8 sets out details of the heritage assets held by the Council.

xxiii. Jointly Controlled Operations

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

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011 and
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service. Both 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.

Note 22 (page 39) to the accounts sets out details of the income & expenditure of the joint arrangements and the apportionments between the two 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xxiv. 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 2016. Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the new regime 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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

xxv. 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.

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 (eg 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.

2. Accounting Standards issued not yet adopted

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.

IAS1 Presentation of Financial Statements. (Disclosure Initiative). This standard provides guidance on the form of the financial statements. The adoption of the changes in the standard will result in changes to the format of the accounts in 2016/17. There will be changes to the Statement and the introduction of a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement of IFRSs cycles. IFRS11 Joint Arrangements IAS16 Property, Plant, Equipment and IAS19 Employee Benefits are minor and not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and therefore there is no impact on the 2015/16 Statement of Accounts.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

3. 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 2016 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 2016 is £28.796m. This liability depends on a number of factors, including discount rates, changes in retirement age, mortality rates and expected return on pensions assets. These are determined on an actuarial basis by Hymans Robertson, the actuaries for the Hertfordshire pension fund.

Change in assumptions at 31 March 2016	Approximate % increase to Employer liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	10%	11.3
1 year increase in member life expectancy	3%	3.5
0.5% increase in the Salary Increase Rate	3%	2.9
0.5% increase in the Pension Increase Rate	7%	8.2

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 32.

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 1). The valuations are carried out by an external advisor 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 shows the 31 March 2016 value of the assets in the 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.

31/03/2016 £'000	-5%		5%	
	Value £'000	Movement £'000	Value £'000	Movement £'000
Other Land & Buildings	65,461	62,188 - 3,273	68,734	3,273
Vehicles, Plant, Furniture & Equip.	19,431	18,459 - 972	20,403	972
Infrastructure	8,331	7,914 - 417	8,748	417
Community Assets	2,436	2,314 - 122	2,558	122
Surplus Assets	2,407	2,287 - 120	2,527	120
	98,066	93,163 - 4,903	102,969	4,903

Depreciation

31/03/2016 £'000	-5%		5%	
	Value £'000	Movement £'000	Value £'000	Movement £'000
Other Land & Buildings	495	470 - 25	520	25
Vehicles, Plant, Furniture & Equip.	1,433	1,361 - 72	1,505	72
Infrastructure	307	292 - 15	322	15
Community Assets	-	-	0	-
Surplus Assets	-	-	0	-
	2,235	2,123 - 112	2,347	112

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 provide information of all the appeals that have been lodged to the Council. As at 31 March 2016 34% (£38.84m) of East Herts rating list was on appeal. It is unknown how many of the outstanding appeals will be successful.

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 2016 is £6.32m, of which the Councils share of £2.53m 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 £316k affecting the surplus/deficit distribution to East Herts Council, Hertfordshire County Council and Central Government.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

2015/16	Usable Reserves			
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,235	-	-	(2,235)
Revaluation / Impairment on Property Plant and Equipment	6,173	-	-	(6,173)
Movements in the market value of Investment Properties	4,402	-	-	(4,402)
Amortisation of intangible assets	246	-	-	(246)
Capital grants and contributions applied	(178)	-	-	178
Revenue expenditure funded from capital under statute	584	-	-	(584)
Revenue grants written down to the Capital Adjustment Account	(293)	-	-	293
Disposal of non current assets	76	-	-	(76)
Disposal of investment Properties	0	-	-	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	(288)	-	-	288
Capital expenditure charged against the General Fund	(1,001)	-	-	1,001
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	0
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(8)	8
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	(877)	877	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(2,151)	-	2,151
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	1	(1)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	3,750	-	-	(3,750)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,176)	-	-	3,176
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,118)	-	-	1,118
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	-	-	-	0
Total Adjustments	10,537	(1,275)	(8)	(9,254)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves			Movement in Unusable Reserves
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	
2014/15 Comparative Figures	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,389	-	-	(2,389)
Revaluation / Impairment on Property Plant and Equipment	0	-	-	0
Movements in the market value of Investment Properties	0	-	-	0
Amortisation of intangible assets	267	-	-	(267)
Capital grants and contributions applied	(420)	-	-	420
Revenue expenditure funded from capital under statute	694	-	-	(694)
Revenue grants written down to the Capital Adjustment Account	(236)	-	-	236
Disposal of non current assets	1,187	-	-	(1,187)
Disposal of investment Properties	0	-	-	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	(280)	-	-	280
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	4	(4)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(51)	51
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	(2,409)	2,409	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(1,132)	-	1,132
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	3,443	-	-	(3,443)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,088)	-	-	2,088
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,975	-	-	(1,975)
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	39	-	-	(39)
Total Adjustments	4,539	1,275	(47)	(5,767)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves

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 2015/16. It also includes the effects of the major review of the Council's Earmarked Reserves undertaken in 2014/15.

	Balance 1 April 2014 £000	Transfers Out/(In) 2014/15 £000	Balance 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance 31 March 2016 £000
Interest Equalisation Reserve	(2,257)	754	(1,503)	300	(311)	(1,514)
Insurance Fund	(10)	(1,000)	(1,010)	-	-	(1,010)
Emergency Planning Reserve	(37)	-	(37)	-	-	(37)
VAT Partial Exemption Reserve	(145)	145	-	-	-	-
Service Improvement Fund	(610)	610	-	-	-	-
LDF/Green Belt Reserve	(733)	214	(519)	120	-	(399)
Housing Condition Survey Reserve	(79)	(14)	(93)	36	(14)	(71)
Council Elections Reserve	(50)	(27)	(77)	100	(28)	(5)
LABGI Reserve	(94)	94	-	-	-	-
Sinking fund - Leisure Utilities / Pension Reserve	(282)	51	(231)	3	-	(228)
Restructure Fund	(33)	33	-	-	-	-
Performance Reward Grant Reserve	(30)	8	(22)	11	-	(11)
Waste Recycling Income Volatility Reserve	(275)	(25)	(300)	-	-	(300)
Footbridge Reserve	(150)	-	(150)	-	-	(150)
Transformation Reserve	(1,127)	(1,655)	(2,782)	741	(361)	(2,402)
DCLG Preventing Repossessions	(30)	-	(30)	2	-	(28)
Environmental Pollution	(14)	-	(14)	14	-	-
New Homes Bonus Priority Spend	(1,049)	(2,767)	(3,816)	925	(660)	(3,551)
Collection Fund Reserve	(1,244)	(307)	(1,551)	1,368	(300)	(483)
DEFRA Flood Support	(125)	32	(93)	56	-	(37)
Commercial Property Fund	-	(500)	(500)	99	(870)	(1,271)
Pension Fund Additional Contribution Reserve	-	(1,000)	(1,000)	1,000	-	-
Single Person Homelessness	-	(12)	(12)	12	-	-
Neighbourhood Planning	-	(45)	(45)	-	(20)	(65)
IER	-	(34)	(34)	-	-	(34)
Traffic Regulation Order Consolidation Reserve	-	-	-	-	(5)	(5)
Total	(8,374)	(5,445)	(13,819)	4,787	(2,569)	(11,601)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

Interest Equalisation Reserve	This reserve was established to assist the Council in managing the financial implications of adverse interest rate fluctuations. As a result of a Council decision in Feb 2016 this reserve was reduced by £300k in anticipation of a rise in interest rates. Additional interest received in 2015/16 above that budgeted for has been transferred to the reserve.
Insurance Fund	Its purpose is to support the Council's insurance and risk management process. As part of the review of reserves in 2014/15 this fund was increased by £1m in anticipation of setting up a self-insurance fund in some areas to reduce future insurance premiums
Emergency Planning Reserve	This 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 2015/16.
VAT Partial Exemption Reserve	This reserve was to enable the Council to meet the additional cost of any unrecoverable VAT. The review of Reserves in 2014/15 considered it unlikely the reserve would be called upon and was therefore removed.
Service Improvement Fund	The reserve was established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term. As a result of the review of reserves it was amalgamated into the Transformation Reserve.
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). Appropriations of £120k have been made in 2015/16 to match expenditure.
Housing Condition Survey Reserve	A contribution was made to the reserve to fund future Housing Condition Surveys and £36k appropriated to match in year expenditure.
Council Elections Reserve	Established to smooth expenditure over the MTFP. Appropriations have been made in 2015/16 to election costs.
Local Authority Business Growth Incentives (LABGI) Reserve	This reserve was established to support the economic development service. As the majority of the reserve had been utilised, as part of the reserve review the balance was transferred to the new Homes Bonus Priority Spend reserve.
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. Appropriations were made from the reserve in 2015/16 relating to increases in utility expenditure in line with the contract.
Restructure Fund Performance Reward Grant Reserve	A small reserve created to assist the Council in meeting any future requirements in The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. Appropriations have been made in line with expenditure.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income. As part of the Reserve Review this reserve was increased by £25k due to continuing reductions in both recycling volumes and prices. There was no call upon it in 2015/16.
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 in 2015/16.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

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. £741k was appropriated from it in 2015/16 to meet expenditure. £361k of the budget underspend 2015/16 was transferred into this reserve.
DCLG Preventing Environmental Pollution	This reserve was established from unspent Government Grant monies. Appropriations were made in 2015/16 to match expenditure
New Homes Bonus Priority Spend	Established from money received from DEFRA. The balance on the reserve was fully utilised in 2015/16.
Collection Fund Reserve	This reserve was established from unspent New Homes Bonus monies received from DCLG and the 2014/15 GF underspend. A further amount of 2015/16 New Homes Bonus monies was transferred to this reserve and £925k appropriated to fund various items agreed by CMT and Executive.
DEFRA Flood Support for Local Businesses	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 2015/16 from the reduction in the Interest Equalisation Reserve and appropriations made from it to fund the Collection Fund deficit.
Commercial Property Fund	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. Appropriations have been made in line with expenditure.
Pension Fund Additional Contribution Reserve	Established in February 2015 to support the development of investment opportunities in commercial property. Part of the GF underspend 2015/16 has been transferred to the reserve and appropriations made to fund costs relating to the purchase of Old River Lane.
Single Person Homelessness	Established in February 2015 with a view of making an additional payment to the Pension Fund in 2015/16 to further reduce the past liability. Fully utilised in 2015/16.
Neighbourhood Planning Grant	Established from grant received from DCLG to fund damage deposits and rent payments to assist single homelessness people get into private accommodation. Appropriations made to fund expenditure incurred.
IER Grant	Created in 2014/15 from unspent Neighbourhood Planning grant received from DCLG to fund future spend. Additional unspent grant received in 2015/16 has been added to the reserve.
Traffic Regulation Order Consolidation Reserve	Established from grant monies received from the Cabinet Office to fund the costs of
	A new reserve established in 2015/16 to fund East Herts contribution the biennial TRO consolidation exercise

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

2015/16

Cost or Valuation	As at 01/04/2015	Additions	Disposals	Reclassifications	Revaluations	Total as at 31/03/2016
	£000	£000	£000	£000	£000	£000
Other Land & Buildings *	49,330	5,723	(76)	3,473	7,011	65,461
Vehicles, Plant, Furniture & Equip.	18,928	503	-	-	-	19,431
Infrastructure	8,200	131	-	-	-	8,331
Community Assets	1,937	169	-	330	-	2,436
Surplus Assets	-	-	-	1,093	1,314	2,407
	<u>78,395</u>	<u>6,526</u>	<u>(76)</u>	<u>4,896</u>	<u>8,325</u>	<u>98,066</u>

Depreciation & Impairment	As at 01/04/2015	Charge for Year	Acc depreciation w/o on revaluation	Disposals	Impairment (reversal) recognised in the service	Revaluations	Total as at 31/03/2016	Balance Sheet as at 31/03/16
	£000	£000	£000	£000	£000	£000	£000	£000
Other Land & Buildings	18,491	495	-	-	6,279	-	25,265	40,196
Vehicles, Plant, Furniture & Equip.	12,853	1,433	-	-	-	-	14,286	5,145
Infrastructure	5,187	307	-	-	-	-	5,494	2,837
Community Assets	91	-	-	-	-	-	91	2,345
Surplus Assets	-	-	-	-	-	-	-	2,407
	<u>36,622</u>	<u>2,235</u>	<u>0</u>	<u>0</u>	<u>6,279</u>	<u>0</u>	<u>45,136</u>	<u>52,930</u>

*All Land and Buildings were re-valued in 2015/16

Reconciliation of Additions in the year to Capital Spend

	2015/16 £000	2014/15 £000
Additions in the year (as above)	6,526	836
Intangible assets	262	329
	<u>6,788</u>	<u>1,165</u>
plus REFCUS (not included in note 6)	584	694
Total Capital Spend	<u>7,372</u>	<u>1,859</u>

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

2014/15

Cost or Valuation	As at 01/04/2014	Additions	Disposals	Reclassifications	Revaluations	Total as at 31/03/2015
	£000					
Other Land & Buildings	49,418	186	(955)	473	208	49,330
Vehicles, Plant, Furniture & Equip.	18,678	296	(42)	(4)	-	18,928
Infrastructure	8,108	92	-	-	-	8,200
Community Assets	1,287	262	-	388	-	1,937
	<u>77,491</u>	<u>836</u>	<u>(997)</u>	<u>857</u>	<u>208</u>	<u>78,395</u>

Depreciation & Impairment	As at 01/04/2014	Charge for Year	Acc depreciation w/o on revaluation	Disposals	Impairment (reversal) recognised in the service	Revaluations	Total as at 31/03/2015	Balance Sheet as at 31/03/15
	£000	£000	£000	£000	£000	£000	£000	£000
Other Land & Buildings	17,969	522	-	-	-	-	18,491	30,839
Vehicles, Plant, Furniture & Equip.	11,305	1,548	-	-	-	-	12,853	6,075
Infrastructure	4,868	319	-	-	-	-	5,187	3,013
Community Assets	91	-	-	-	-	-	91	1,846
	<u>34,233</u>	<u>2,389</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>36,622</u>	<u>41,773</u>

7. Analysis of Fixed Assets

	31 March '16 (Nos.)	31 March '15 (Nos.)
Council Dwellings - Hostels	2	1
- Houses	5	2
Council Offices - Freehold	2	1
- Leasehold	0	1
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks (incl. Leasehold)	35	27
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	188 HA	187 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	47 Units	45 Units
Land Awaiting Development	1.2 HA	3 Acres
Public Convenience	5	4

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

8. Heritage Assets

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:

	Insurance Value	
	2015/16 £000	2014/15 £000
The Castle Wall (ancient flint), Hertford	1,188	1,147
Scott's Grotto, Ware	1,209	1,168
Monument, remains of Church of St Mary's, Old Cross	57	55
Community land B/S Obelisk	27	27
Flowing River Sculpture B/S	12	10
Evolution sculpture at Hartham Common	12	12
Hertford Theatre Wall Bronze Resin Sculpture	10	10
Civic Regalia	10	12
Oil Painting of Wallfields Hertford	3	3
Chainsaw sculpture Pishiobury Park Sawbridgeworth	5	5

See also Accounting Policy xxii (page 17).

9. Investment Properties

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

	2015/16 £000	2014/15 £000
Rental income from investment property	(595)	(513)
Direct operating expenses arising from investment property	47	447
Net gain	(548)	(66)

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'. As a result of the clearer definition a number of original investment properties have been re-classified as Property, Plant and Equipment and one to Community Assets.

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:

	2015/16 £000	2014/15 £000
Balance at start of the year	8,688	9,545
Additions: Not transferred through re-classification	15,074	-
Additions: Transferred through re-classification	-	-
Disposals : Transferred through re-classification	(4,566)	(857)
Net gains / (losses) from fair value adjustments	(4,402)	-
Balance at end of the year	14,794	8,688

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

9. Investment Properties

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 2015 by the Council's internal valuer in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

10. Intangible Assets

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:

	2015/16			2014/15		
	Software £000	Other Intangible Assets £000	Total £000	Software £000	Other Intangible Assets £000	Total £000
Balance at start of year:						
Gross carrying amounts	3,572	-	3,572	3,243	21	3,264
Accumulated amortisation	(3,062)	-	(3,062)	(2,795)	(21)	(2,816)
Net carrying amount at start of year	510	0	510	448	0	448
Additions:						
Purchases	262	-	262	329	-	329
Amortisation for the period	(245)	-	(245)	(267)	-	(267)
Net carrying amount at end of year	527	0	527	510	0	510
Comprising:						
Gross carrying amounts	3,834	-	3,834	3,572	21	3,593
Accumulated amortisation	(3,307)	-	(3,307)	(3,062)	(21)	(3,083)
	527	0	527	510	0	510

11. 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 '16 £000	31 March '15 £000	31 March '16 £000	31 March '15 £000
Borrowing				
Financial Liabilities at amortised cost	8,015	8,699	7,029	4,767
Total Borrowing	8,015	8,699	7,029	4,767
Investments				
Loans and Receivables	1,153	1,163	36,758	52,845
Available for Sale Financial Assets	19,944	-	-	21,600
Total Investments	21,097	1,163	36,758	74,445

See also Notes 34 and 35 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 2015/16.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

11. Financial Instruments Balances Continued

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	2015/16 £000	2014/15 £000
Available for Sale - Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	19,944	-
Balance at end of the year			19,944	0

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;

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

11. Financial Instruments Balances - continued

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:

	2015/16 £000	2014/15 £000
Balance at 1 April	107	(74)
Upward revaluation of investments	9	107
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(291)	-
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	(107)	74
	(282)	107

See also Note 20, page 34.

12. 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:

2015/16	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets	
	£000	£000	£000	£000
Interest Expense	686	-	-	686
Interest Payable and Similar Charges	686	-	-	686
Interest Income	-	(1,089)	-	(1,089)
Realised Gains	-	-	-	-
Interest and Investment Income	-	(1,089)	-	(1,089)
Losses on revaluation	-	37	-	-
Loss arising on revaluation of financial assets	-	37	-	37
Net (Gain) / Loss for year	686	(1,052)	-	(366)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

12. Financial Instruments Gains / Losses - continued

2014/15	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available for Sale Assets £000	
Interest Expense	694	-	-	694
Interest Payable and Similar Charges	694	-	-	694
Interest Income	-	(741)	-	(741)
Realised Gains	-	-	-	-
Interest and Investment Income	-	(741)	-	(741)
Losses on revaluation	-	-	-	-
Loss arising on revaluation of financial assets	-	-	-	-
Net (Gain) / Loss for year	694	(741)	-	(47)

13. 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:

- Capita 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 2016		31st March 2015	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	15,045	20,033	14,744	19,415

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

13. Fair Value of Assets and Liabilities carried at Amortised Cost continued

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 2016		31st March 2015	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	50,637	* 49,933	44,036	44,364

* Excludes Fund Managers cash included within Note 15.

The fair value is less than the carrying amount because of the Council's relatively new investment in Property Funds. The Fund value does not yet cover the exit fee.

Also see notes 34 and 35 to the Core Statements. (Investments and Borrowings)

14. Debtors

Short Term Debtors	31 March '16 £000	31 March '15 £000
Central government bodies	2,413	3,734
Other local authorities	476	635
Bodies external to general government (ie all other bodies)	3,597	4,023
	6,486	8,392

Long Term Debtors	31 March '16 £000	31 March '15 £000
Bodies external to general government (ie all other bodies)	1,153	1,156
	1,153	1,156

15. Cash and Cash Equivalents

	31 March '16 £000	31 March '15 £000
Short-term deposits with banks	23,700	13,245
Total Cash and Cash Equivalents	23,700	13,245

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

16. Assets Held for Sale

	Current		Non-Current	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Balance outstanding at start of year	330	519	-	-
Assets newly classified as held for sale:				
Investment Properties	-	-	-	-
Property, Plant and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Assets de-classified as held for sale:				
Assets sold in year	(330)	(189)	-	-
Balance outstanding at year-end	0	330	0	0

17. Creditors

	31 March '16 £000	31 March '15 £000
Short Term Creditors		
Central government bodies	1,040	388
Other local authorities	700	610
Bodies external to general government (ie all other bodies)	5,289	4,060
	7,029	5,058
Long Term Creditors		
Bodies external to general government (ie all other bodies)	304	987
	304	987

18. Provisions

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	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Balance at 1 April	2,641	1,311	36	61
Additions	300	2,171	-	-
Amounts used	(289)	(841)	-	(25)
Balance at 31 March	2,652	2,641	36	36

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

19. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 4 Adjustments between accounting basis and funding basis under regulations and Note 5 Transfers to/from Earmarked Reserves.

20. Unusable Reserves

	31 March '16 £000	31 March '15 £000
Revaluation Reserve	11,550	3,656
Available for Sale Financial Instruments Reserve	(282)	107
Capital Adjustment Account	81,256	90,727
Deferred Capital Receipts Reserve	154	155
Pensions Reserve	(28,795)	(34,342)
Collection Fund Adjustment Account	(2,223)	(3,342)
Accumulated Absences Account	(135)	(135)
Total Unusable Reserves	61,525	56,826

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.

	2015/16		2014/15
	£000	£000	£000
Balance at 1 April		3,656	3,448
Upward revaluation of assets	8,866		569
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(646)		(361)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		8,220	208
Difference between fair value depreciation and historical cost depreciation		(326)	-
Balance at 31 March		11,550	3,656

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.

	2015/16		2014/15
	£000	£000	£000
Balance at 1 April		107	(74)
Upward revaluation of investments	9		107
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(291)		-
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		(282)	74
		(107)	
Balance at 31 March		(282)	107

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

20. Unusable Reserves - continued

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

	2015/16		2014/15
	£000	£000	£000
Balance at 1 April		90,727	93,125
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(2,235)		(2,389)
· Charges for depreciation on revalued assets	327		0
· Movements in the market value of investment properties	(4,402)		0
· Revaluation/Impairment on Property, Plant and Equipment	(6,174)		0
· Amortisation of intangible assets	(245)		(267)
· Revenue expenditure funded from capital under statute	(584)		(694)
· Revenue grants written down to the Capital Adjustment Account	293		235
· Disposal of property, plant and equipment	(76)		(1,187)
· Disposal of investment properties	-		0
		(13,096)	(4,302)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	2,151		1,132
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	178		416
· Application of grants to capital financing from the Capital Grants Unapplied Account	8		51
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	287		280
· Capital expenditure charged against the General Fund	1,001		25
		3,625	1,904
Balance at 31 March		81,256	90,727

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

20. Unusable Reserves - continued

Pensions Reserve (continued)

	2015/16 £000	2014/15 £000
Balance at 1 April	(34,342)	(30,844)
Actuarial gains or (losses) on pensions assets and liabilities	6,122	(2,143)
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	(3,750)	(3,443)
Employer's pensions contributions and direct payments to pensioners payable in the year	3,174	2,088
Balance at 31 March	<u>(28,796)</u>	<u>(34,342)</u>

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.

	2015/16 £000	2014/15 £000
Balance at 1 April	155	156
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	<u>154</u>	<u>155</u>

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.

	2015/16 £000	2014/15 £000
Balance at 1 April	(3,342)	(1,368)
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	1,119	(1,974)
Balance at 31 March	<u>(2,223)</u>	<u>(3,342)</u>

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.

	2015/16 £000	2014/15 £000
Balance at 1 April	(135)	(96)
Settlement or cancellation of accrual made at the end of the preceding year	135	96
Amounts accrued at the end of the current year	(135)	(135)
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	0	(39)
Balance at 31 March	<u>(135)</u>	<u>(135)</u>

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

21. Amount reported for Resource Allocation Decisions

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Services Income & Expenditure 2015/16	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Total £000
Fees, charges and other service income	(1,861)	(1,592)	(944)	(760)	(1,208)	(4,690)	(3,104)	(14,159)
Government grants	(36,668)	(149)	(20)	(325)	-	-	(58)	(37,220)
Total Income	(38,529)	(1,741)	(964)	(1,085)	(1,208)	(4,690)	(3,162)	(51,379)
Employee expenses	3,245	2,732	2,327	2,275	-	-	3,740	14,319
Other service expenses	35,970	4,777	527	1,026	2,309	2,204	7,266	54,079
Support service recharges	-	(199)	-	(45)	-	-	-	(244)
Depreciation, amortisation & Impairment	98	3,803	136	826	331	1,956	2,101	9,251
Total Expenditure	39,313	11,113	2,990	4,082	2,640	4,160	13,107	77,405
Net Expenditure	784	9,372	2,026	2,997	1,432	(530)	9,945	26,026

Services Income & Expenditure 2014/15	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Total £000
Fees, charges and other service income	(2,032)	(663)	(1,829)	(665)	(1,274)	(4,417)	(2,928)	(13,808)
Government grants	(36,752)	(61)	(50)	(271)	-	-	(42)	(37,176)
Total Income	(38,784)	(724)	(1,879)	(936)	(1,274)	(4,417)	(2,970)	(50,984)
Employee expenses	3,226	2,578	2,257	2,118	-	-	3,289	13,468
Other service expenses	36,238	4,067	611	883	2,290	2,559	6,663	53,311
Support service recharges	-	(246)	-	(26)	-	-	-	(272)
Depreciation, amortisation & Impairment	130	350	117	929	358	201	1,279	3,364
Total Expenditure	39,594	6,749	2,985	3,904	2,648	2,760	11,231	69,871
Net Expenditure	810	6,025	1,106	2,968	1,374	(1,657)	8,261	18,887

Reconciliation of Service Income and Expenditure to cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2015/16 £000	2014/15 £000
Net expenditure in the Service Analysis	26,026	18,887
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	-	-
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	26,026	18,887

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

21. Amount reported for Resource Allocation Decisions - continued

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(14,159)	-	(14,159)	-	(14,159)
Interest and Investment income	-	-	-	(1,684)	(1,684)
Income from Council Tax	-	-	-	(12,483)	(12,483)
Government grants and contributions	(37,220)	-	(37,220)	(7,974)	(45,194)
Total Income	(51,379)	-	(51,379)	(22,141)	(73,520)
Employee expenses	14,319	-	14,319	1,057	15,376
Other service expenses	54,079	-	54,079	84	54,163
Support Service recharges	(244)	-	(244)	-	(244)
Depreciation, amortisation and impairment	9,251	-	9,251	-	9,251
Interest payments	-	-	-	686	686
Precepts and Levies	-	-	-	3,564	3,564
Payments to Housing Capital Receipts Pool	-	-	-	1	1
Changes in value of Investment Properties	-	-	-	4,402	4,402
Gain or loss on disposal of fixed assets	-	-	-	(801)	(801)
Total Expenditure	77,405	-	77,405	8,993	86,398
Surplus or deficit on the provision of services	26,026	-	26,026	(13,148)	12,878

2014/15 comparative figures

	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(13,809)	-	(13,809)	-	(13,809)
Interest and Investment income	-	-	-	(1,254)	(1,254)
Income from Council Tax	-	-	-	(12,325)	(12,325)
Government grants and contributions	(37,175)	-	(37,175)	(7,964)	(45,139)
Total Income	(50,984)	-	(50,984)	(21,543)	(72,527)
Employee expenses	13,468	-	13,468	1,266	14,734
Other service expenses	53,311	-	53,311	447	53,758
Support Service recharges	(272)	-	(272)	-	(272)
Depreciation, amortisation and impairment	3,364	-	3,364	-	3,364
Interest payments	-	-	-	694	694
Precepts and Levies	-	-	-	3,492	3,492
Payments to Housing Capital Receipts Pool	-	-	-	2	2
Changes in value of Investment Properties	-	-	-	-	-
Gain or loss on disposal of fixed assets	-	-	-	(1,222)	(1,222)
Total Expenditure	69,871	-	69,871	4,679	74,550
Surplus or deficit on the provision of services	18,887	-	18,887	(16,864)	2,023

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

22. Jointly Controlled Operations

The Council is party to two jointly controlled operations to provide the following services:

- the Revenues and Benefits
- Business and Technology

The accounting and governance arrangements are detailed at page 17.

	2015/16		2014/15	
	Business & Technical Service	Revenues & Benefits Service	Business & Technical Service	Revenues & Benefits Service
	£000	£000	£000	£000
Expenditure				
Employees	1,254	2,904	1,222	2,829
Transport Related Expenses	22	24	25	23
Supplies and Services	983	260	881	241
Support Services	-	1,077	-	1,117
Total Expenditure	2,259	4,265	2,128	4,210
Income				
Stevenage Borough Council	1,291	1,596	1171	1,635
East Herts District Council	968	2,669	957	2,575
Total Income	2,259	4,265	2,128	4,210
Net Expenditure	0	0	0	0

Note: The expenditure and income for the Business & Technology Services reflects the financial impact of the agreement from its formation on 1st August 2013.

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

23. 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:

	2015/16	2014/15
	£000	£000
Basic Allowances	260	260
Special Responsibility Allowances	119	122
Travel and Subsistence expenses	11	7
	390	389

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

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

24. 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	
	2015/16 Total	2014/15 Total
£50,000 to £54,999	11	4
£55,000 to £59,999	2	3
£60,000 to £64,999	2	4
£65,000 to £69,999	2	1
£70,000 to £74,999	-	-
£75,000 to £79,999	-	-
£80,000 to £84,999	1	1
£85,000 to £89,999	-	-
£90,000 to £94,999	-	2
£95,000 to £99,999	2	-
£100,000 to £104,999	-	-
£105,000 to £109,999	-	-
£110,000 to £114,999	-	-
£115,000 to £119,999	-	1
£120,000 to £124,999	1	-
£125,000 to £129,999	-	-
£130,000 to £134,999	-	-
£135,000 to £139,999	-	-
£140,000 to £144,999	2	-
£145,000 to £149,999	-	-
£150,000 to £154,999	1	-
£180,000 to £184,999	1	-

The above table includes those members of staff who left the Council and received an exit package. See Note 25 below.

25. 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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16 £	2014/15 £
£								
0-20,000	-	-	-	-	-	-	-	-
20,001-40,000	-	-	2	-	2	-	56,768	-
40,001-60,000	1	-	-	-	1	-	58,525	-
60,001-80,000	-	1	-	-	-	1	-	63,954
80,001-100,000	1	-	2	-	3	-	253,460	-
100,001-150,000	1	-	-	-	1	-	113,076	-
Total	3	1	4	-	7	1	481,829	63,954

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

26. 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 24, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance)	Benefits in Kind	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
2015/16						
Chief Executive & Director of Customer and Community Services (left 31/5/15)	19,450	154	-	19,604	3,182	22,786
Chief Executive (started 26/10/15)	43,629	220	-	43,849	7,184	51,033
Director of Neighbourhood Services	80,681	61	-	80,742	12,923	93,665
Director of Finance & Support Services	97,619	195	-	97,814	16,015	113,829
2014/15						
Chief Executive & Director of Customer and Community Services	115,150	316	-	115,466	19,090	134,556
Director of Neighbourhood Services	84,733	38	-	84,771	14,034	98,805
Director of Finance & Support Services	92,035	172	-	92,207	15,006	107,213

27. 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 2015/16 East Herts Council incurred the following fees relating to external audit and inspection:

	2015/16 £000	2014/15 £000
Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor	52	69
Rebate from the Audit Commission in respect of audit fees	0	(7)
Fees payable to Ernst & Young for the certification of grant claims and returns	8	9
	60	71

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	2015/16 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,483	12,325
Non-Domestic Rates	2,017	1,101
Revenue Support Grant	2,057	2,816
Council Tax Freeze Grant	95	94
New Homes Bonus	2,798	2,199
Other Capital Grants	178	415
Sec 31 Business Rate Support	820	1,317
Other Revenue Grants	9	23
	20,457	20,290
Credited to Services		
<u>Grants</u>		
DWP	36,453	36,481
DCLG	643	563
Forestry Commission	-	37
LAA	28	28
Cabinet Office	38	61
DEFRA	11	5
EEDA	46	-
	37,219	37,175
<u>Other Contributions</u>		
Contributions from Other Authorities*	2,621	2,726
Income from Other Bodies	739	546
	3,360	3,272

* 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:

	2015/16 £000	2014/15 £000
Grants Receipts in Advance		
Capital		
Other Capital Grants	82	62
Developer Contributions	2,221	1,807
	2,303	1,869
Revenue		
Developer Contributions	1,280	773
	1,280	773

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

29. 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, page 8.

The spouse of a member of the Council held the positions of Trustee at Sawbridgeworth Memorial Hall which received £9.5k grant funding from the Council and a trustee of Sawbridgeworth Young Peoples Centre who received £600 grant funding in 2015/16.

A member of the Council held the position of trustee of CVS Broxbourne and East Herts which received £15k core funding, £11k towards Community Transport Projects and £3.6k of other smaller grants from the Council. This member is also a trustee at Wodson Park which received funding of £54.7k during 2015/16.

A member of the Council held the position of trustee of the Hailey Centre, Sawbridgeworth, which received a £800 grant.

A member of the Council held the positions of trustee of Age Concern Bishop's Stortford which received a grant of £3.9k to provided improved facilities for centre users.

A member of the Council is a trustee at Wodson sport and Leisure Centre which received funding of £54.7k during 2015/16. This member is also trustee for Hertford Museum.

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 are a related party in respect of various transactions including pensions contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown on pages 32 & 33 within Notes 14 & 17.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

	2015/16	2014/15
	£000	£000
30. Capital Expenditure and Capital Financing		
Opening Capital Financing Requirement	(41,895)	(41,895)
Capital investment		
Property, Plant & Equipment	6,213	836
Infrastructure	131	-
Community Assets	169	-
Investment Property	15,074	-
Intangible Assets	275	329
Revenue Expenditure Funded from capital under Statute	584	694
Sources of finance		
Capital receipts	(2,151)	(1,132)
Government grants and other contributions	(478)	(702)
Sums set aside from Revenue:		
Direct revenue contributions	(1,001)	(25)
Loan/ finance lease principal repayments	-	-
Closing Capital Financing Requirement	(23,079)	(41,895)
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	18,816	0
Decrease in Surplus in Capital Resource *	18,816	0

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

31. Leases

Council as a lessee

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.

The Council has a commitment to make four minimum payments under the lease as at 31 March 2016. The gross commitment is made up of the following amounts:

	2015/16	2014/15
	£000	£000
Finance lease Creditor as at 31 March	888	1,168
Finance expenditure	(288)	(280)
Gross commitment in lease as at 31 March	600	888

The gross commitment in the lease which is the minimum lease payments (fair value is not considered to be materially different) will be made over the following periods:

	Gross investment in lease 31 March '16	Gross investment in lease 31 March '15
	£000	£000
Not later than 1 year	296	288
Later than 1 year and not later than 5 years	304	600
Later than 5 years	-	-
	600	888

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

31. Leases - continued

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 '16	31 March '15
	£000	£000
Not later than one year	210	444
Later than one year and not later than five years	840	1,775
Later than five years	1,470	4,185
	2,520	6,404

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

	2015/16	2014/15
	£000	£000
Minimum lease payments	327	444
Lease payments receivable	(99)	(139)
	228	305

Council as a lessor

Finance leases

The Council has one property lease, Pinders Lodge, where the accounting treatment has changed following the introduction of the IFRS Code. The lease term is 50 years from March 1997. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

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:

	2015/16	2014/15
	£000	£000
Finance lease debtor as at 31 March	154	155
Unearned finance income	278	291
Gross investment in lease as at 31 March	432	446

STATEMENT OF ACCOUNTS 2015/16
NOTES TO THE FINANCIAL STATEMENTS

31. Leases - continued

Finance leases - continued

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

	Gross investment in lease 31 March '16 £000	Gross investment in lease 31 March '15 £000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	363	377
	433	447

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:

	31 March '16 £000	31 March '15 £000
Not later than one year	1,095	532
Later than 1 year and not later than 5 years	2,911	2,026
Later than 5 years	33,002	31,022

32. Pension Scheme

As part of the terms and conditions of employment the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed 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 2014.

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

The following transactions set out the position for the year:

	2015/16 £000	2014/15 £000
Comprehensive Income & Expenditure Statement:		
Net Cost of Services:		
Current service cost	2,693	2,176
Non Distributed Costs -		
Past Service Cost / (Gain)	-	1
Losses / (Gains) on Curtailments & Settlements	-	-
Net Operating Expenditure:		
Interest cost	3,773	4,442
Expected returns on assets in the scheme	(2,716)	(3,176)
Costs charged against CI&E	3,750	3,443
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	(576)	(1,355)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	<u>3,174</u>	<u>2,088</u>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 is a loss of £27.163m

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2015/16 £000	2014/15 £000
1 April	121,952	109,176
Current Service Cost	2,693	2,177
Interest Cost	3,773	4,442
Contributions by scheme participants	637	605
Actuarial (gains) and losses	(7,512)	9,891
Benefits paid	(3,793)	(4,339)
Past service costs (Gains)	-	-
Losses on Curtailments	-	-
31 March	<u>117,750</u>	<u>121,952</u>

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

The total liability of £117,750k (£121,952k in 2014/15) has a substantial impact on the net worth of the Council as recorded on the balance sheet, resulting in a negative overall balance of £28.796m (£34.342m in 2014/15).

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2015/16	2014/15
	£000	£000
1 April	87,610	78,332
Expected rate of return	2,716	3,176
Actuarial gains and losses	(1,390)	7,748
Employer contributions	3,174	2,088
Contributions by scheme participants	637	605
Benefits paid	(3,793)	(4,339)
31 March	88,954	87,610

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 -£6.063m (2014/15 £10.924m).

Scheme history	31 March	31 March	31 March	31 March	31 March
	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Present value of liabilities	(117,750)	(121,952)	(109,176)	(106,901)	(93,394)
Fair value of assets	88,954	87,610	78,332	70,769	62,823
(Deficit) in the scheme	(28,796)	(34,342)	(30,844)	(36,132)	(30,571)

The net pension liability for the council of £28.796m (£34.342m in 2014/15) has a substantial 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 2017 is £2.174m (£2.156m to 31 March 2016).

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

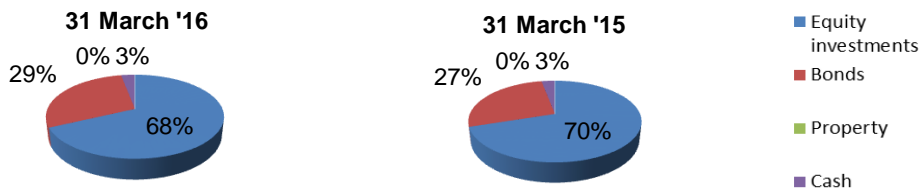
Basis for estimating assets and liabilities

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 2014.

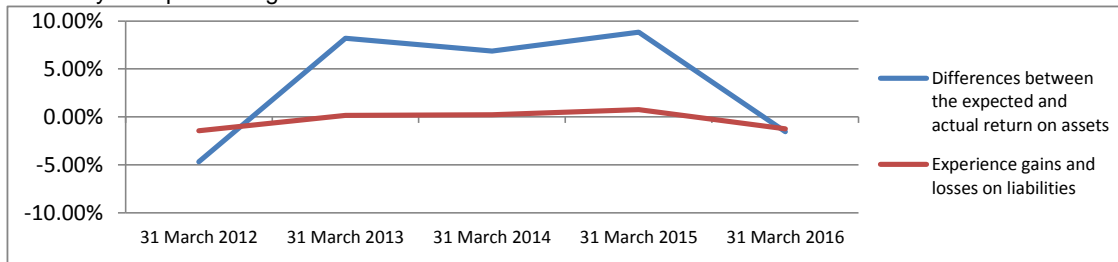
The principal assumptions used by the actuary have been:

	31 March '16	31 March '15
Long-term expected rate of return on assets in the scheme:		
Equity investments	3.4%	3.1%
Bonds	3.4%	3.1%
Property	3.4%	3.1%
Cash	3.4%	3.1%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.3 years	22.3 years
Women	24.5 years	24.5 years
Longevity at 65 for future pensioners:		
Men	24.3 years	24.3 years
Women	26.7 years	26.7 years
Rate of inflation/ Pension increase	2.1%	2.1%
Rate of increase in salaries	3.6%	3.5%
Expected Return on Assets	3.4%	3.1%
Discount Rate	3.4%	3.1%
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%

In summary the County Council Pension Scheme's assets consist of the following categories, by proportion of the total assets held:



History of experience gains and losses



STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

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

Asset Category	Period Ended 31 March 2016				Period Ended 31 March 2015			
	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	7,226	-	7,226	8	7,736	-	7,736	9
Manufacturing	6,593	-	6,593	7	9,165	-	9,165	10
Energy & Utilities	1,546	-	1,546	2	2,529	-	2,529	3
Financial Institutions	6,760	-	6,760	8	7,874	-	7,874	9
Health & Care	1,178	-	1,178	1	1,299	-	1,299	1
Information Technology	4,207	-	4,207	5	5,441	-	5,441	6
Other	205	-	205	0	646	-	646	1
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	0	-	-	0	-
UK Government	-	-	-	0	-	-	0	-
Other	-	-	-	0	-	-	0	-
Private Equity	-	3,818	3,818	4	-	3,629	3,629	4
Real Estate								
UK Property	-	3,973	3,973	5	-	-	0	-
Overseas Property	-	2,322	2,322	3	-	-	0	-
Investment Funds and Unit Trusts:								
Equities	18,057	-	18,057	20	12,588	-	12,588	14
Bonds	24,357	-	24,357	27	23,369	-	23,369	27
Commodities	420	-	420	1	380	-	380	0.430
Infrastructure	-	114	114	0	-	78	78	0.110
Other	363	5,314	5,677	6	275	10,481	10,756	12
Derivatives								
Foreign Exchange	0	(327)	(327)	0	-	(190)	(190)	-
Cash and Cash Equivalents	2,828	-	2,828	3	2,310	-	2,310	3
TOTALS	73,740	15,214	88,954	100	73,612	13,998	87,610	100

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

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 2016:	Approximate % increase to Employer Liability %	Approximate monetary amount £000
0.5% decrease in real discount rate	10	11,337
1 year increase in member life expectancy	3	3,532
0.5% increase in the salary increase rate	3	2,970
0.5% increase in the Pension increase rate	7	8,232

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 2017

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.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

33. 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 specifies the counterparties to be used and the priority is the security of the capital. It also sets out the borrowing requirement, prospects on interest rates and exposure limits.

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.

The credit criteria in respect of financial assets held by the Council are detailed below:

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 2015/16 was approved by Full Council on 18/02/15 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 2016 that this was likely to crystallise.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

33. Nature and Extent of Risks arising from Financial Instruments - continued

1 Credit Risk

Credit limits were only exceeded with the Council's own Bank (Natwest) during the reporting period. This was due to funds being held on call for a limited period awaiting the purchase of the investment property at Old River Lane. 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 xvii, page 16)

	31 March '16	31 March '15
	£000	£000
Less than three months	974	1,364
Three months to six months	395	310
Six months to one year	616	613
More than one year	1,776	1,380
	<u>3,761</u>	<u>3,667</u>

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

2 Liquidity Risk

The Council manages its liquidity position through the 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 34 and Borrowing Note 35

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 38.

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

33. Nature and Extent of Risks arising from Financial Instruments - continued

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 borrowings would not receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance £ for £. 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. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2014 was fixed rate. 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 rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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.

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 2016 is £1.5m.

Based on the current Treasury Management position at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	191
Increase in government grant receivable for financing costs	de minimus
Impact on Comprehensive I & E Statement	<u>191</u>

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

33. Nature and Extent of Risks arising from Financial Instruments - continued

5 Price Risk / 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.

34. Investments

The Council's investments consists of:

	31 March 2016 £000	31 March 2015 £000
Long term investments	19,944	7
Temporary investments:		
Money market fund	-	-
Building Society Deposits	-	-
Bank deposits	10,539	44,486
UK Treasury Securities		12,291
	30,483	56,784

35. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding	
		31 March 2016 £000	31 March 2015 £000
Public Works Loan Board	8.875	1,522	1,521
Bonds	8.785	6,189	6,189
		7,711	7,710

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	6,189	6,189
Maturing in 10-20 years	-	-
Maturing in 20-30 years	-	-
Maturing in 30-40 years	1,522	-
Maturing in 40-50 years	-	1,521
	7,711	7,710

Refer to notes 11 and 13 to the Core Statements.

36. Deferred Credits

Deferred Credits are amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses.

	31 March 2016 £000	31 March 2015 £000
Balance as at 1 April	2	6
Movements in the year	(2)	(4)
Balance as at 31 March	0	2

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE FINANCIAL STATEMENTS

37. Capital Commitments

As at 31 March 2016 the Council had no major capital commitments to disclose.

38. Contingent Liability

The Council has identified two contingent liabilities which may give rise to future costs.

Following the Municipal Mutual Insurance Scheme Arrangement being "triggered" the Council made a provision of £19,443 (based on a 15% levy) within its accounts at 31 March 2013. This levy was paid in 2013/14. A contingent liability of around £125,000 remains in respect of potential further exposure against existing claims.

A group of Property Search Companies sought to claim refunds of fees paid to the Council to access land charges data. The parties have reached agreement on the claims. The Council has agreed to pay the property search companies legal costs to be subject to detailed assessment by way of costs only proceedings if not agreed. The Council is in discussions with the claimants about the costs aspect of the claim. At present it is not possible to put a final value on these potential liabilities and so the Council has instead recognised a contingent liability.

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

On 23rd June 2016 Britain voted to leave the European Union. Property markets have seen some volatility since the referendum, which will have an impact on the Council's Property Fund investments. In addition, the volatility in markets and currency rates are likely to have an adverse effect on the Pension Fund Investments. This in turn could lead to an increase in Pension Fund contributions.

STATEMENT OF ACCOUNTS 2015/16

THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

	2015/16			2014/15		
	£000	£000	£000	£000	£000	£000
	Council			Council		
	Tax	NDR	Total	Tax	NDR	Total
Income collectable from Council Taxpayers Note 2	86,522	-	86,522	83,738	-	83,738
Income collectable from Business Ratepayer: Note 3	-	44,455	44,455	-	43,433	43,433
Total Income	86,522	44,455	130,977	83,738	43,433	127,171
Council Tax Precepts and Demands						
Hertfordshire County Council	64,386	-	64,386	62,060	-	62,060
East Herts Council	12,365	-	12,365	12,230	-	12,230
Hertfordshire Police	8,341	-	8,341	8,199	-	8,199
Business Rates Shares:						
Payments to Government	-	22,387	22,387	-	21,516	21,516
Payments to Hertfordshire County Council	-	4,477	4,477	-	4,303	4,303
Payment to East Herts Council	-	17,910	17,910	-	17,213	17,213
Charges to Collection Fund						
Costs of Collection	-	195	195	-	197	197
Bad Debt Provision - Increase:						
Council Tax	323	-	323	384	-	384
Non Domestic Rates	-	292	292	-	601	601
Non Domestic Rates Appeals Provision Note 4	-	30	30	-	3,736	3,736
Transitional Protection Payment	-	84	84	-	275	275
Distribution of prior years Fund balance	1,342	(3,792)	(2,450)	(41)	780	739
Total Expenditure	86,757	41,583	128,340	82,832	48,621	131,453
In year Movement in Fund	235	(2,872)	(2,637)	(906)	5,188	4,282
Balance as at 1 April	(1,316)	8,720	7,404	(410)	3,532	3,122
Balance as at 31 March	(1,081)	5,848	4,767	(1,316)	8,720	7,404
Allocated to :						
East Herts Council	(116)	2,339	2,223	(145)	3,488	3,343
Hertfordshire Police	(109)	-	(109)	(137)	-	(137)
Hertfordshire County Council	(856)	585	(271)	(1,034)	872	(162)
Government	-	2,924	2,924	-	4,360	4,360
Total	(1,081)	5,848	4,767	(1,316)	8,720	7,404

The Council Tax Benefit Scheme ended in 2012/13 and was replaced by 'Localised Council Tax Support' in 2013/14. The Retained Business Rates Regime was introduced in 2013/14 and resulted in the cessation of the national NNDR pool arrangements.

STATEMENT OF ACCOUNTS 2015/16

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 2015/16 was approved at Full Council on 17 December 2014 and was calculated as follows:

Band	Estimated no. of taxable properties after effect of discounts	Ratio	Band D Equivalent dwellings
A	509.73	6/9	339.82
B	3,720.99	7/9	2,894.10
C	11,318.63	8/9	10,061.00
D	12,816.00	9/9	12,816.00
E	9,579.27	11/9	11,708.00
F	6,695.38	13/9	9,671.10
G	4,976.88	15/9	8,294.80
H	706.15	18/9	1,412.30
	50,323.02		57,197.12
Estimated collection rate			98.65%
2015/16 Estimated Council Tax base			56,425
Council Tax collection			£000
2015/16 estimated Council Tax due <i>56,425 x £1,508.04 (average band D charge)</i>			85,091
2015/16 Council Tax income			86,522
Surplus			(1,431)

STATEMENT OF ACCOUNTS 2015/16

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT (continued)

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 2015/16 was 49.3p (2014/15 48.2p)

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 (£15.447m in 2015/16) 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 £113.122 million (£111.711 million for 2014/15).

4. Provisions

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

	2015/16			2014/15		
	£000	£000	£000	£000	£000	£000
	Council Tax	NDR	Total	Council Tax	NDR	Total
Balance at 1 April	(1,694)	(1,080)	(2,774)	(1,443)	(1,396)	(2,839)
Additional provisions made in 2015/16	(323)	(292)	(615)	(383)	(601)	(984)
Provision applied in 2015/16	171	225	396	132	917	1,049
Balance at 31 March	(1,846)	(1,147)	(2,993)	(1,694)	(1,080)	(2,774)

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 2016.

	2015/16	2014/15
	£000	£000
Balance at 1 April	(6,296)	(2,560)
Additional provisions made	(300)	(5,302)
Provision applied in year	272	1,566
Balance at 31 March	(6,324)	(6,296)

STATEMENT OF ACCOUNTS 2015/16

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
- Selecting measuring bases for
- Presenting

Accruals

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

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

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

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.

STATEMENT OF ACCOUNTS 2015/16

GLOSSARY OF TERMS (continued)

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.

Curtailement

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

STATEMENT OF ACCOUNTS 2015/16

GLOSSARY OF TERMS (continued)

DCLG

Department for Communities and Local Government

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.

STATEMENT OF ACCOUNTS 2015/16

GLOSSARY OF TERMS (continued)

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.

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)

Statement of Accounts 2015/16

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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;

made 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 Financial 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 of its income and expenditure for the year ended 31 March 2016.

Signed

Dated

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

Signed

Dated

Councillor M Pope
Chairman of Audit Committee