

**CAMBRIDGESHIRE COUNTY COUNCIL
STATEMENT OF ACCOUNTS
AND
ANNUAL GOVERNANCE STATEMENT
2017-18**

CONTENTS

NARRATIVE REPORT	4
STATEMENT OF RESPONSIBILITIES, CERTIFICATE AND APPROVAL OF ACCOUNTS	20
INDEPENDENT AUDITORS' REPORT	22
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	23
MOVEMENT IN RESERVES STATEMENT	24
BALANCE SHEET	25
CASH FLOW STATEMENT	26
NOTES TO THE CORE FINANCIAL STATEMENTS:	
1. Expenditure and Funding Analysis	27
2. Note to the Expenditure and Funding Analysis	28
3. Expenditure and Income Analysed by Nature	30
4. Accounting Policies	30
5. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted	30
6. Critical Judgements in Applying Accounting Policies	31
7. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	32
8. Events after the Balance Sheet Date	33
9. Adjustments between Accounting Basis and Funding Basis under Regulations	34
10. Transfers to/from Earmarked Reserves	37
11. Other Operating Expenditure	37
12. Financing and Investment Income and Expenditure	38
13. Taxation and Non Specific Grant Incomes	38
14. Property, Plant and Equipment	38
15. Heritage Assets	42
16. Long Term Debtors	43
17. Financial Instruments	43
18. Investment Properties	46
19. Fair Value Hierarchy	47
20. Short Term Debtors	49
21. Cash and Cash Equivalents	49
22. Assets Held For Sale	50
23. Short Term Creditors	50
24. Provisions	50

CONTENTS

25. Other Long Term Liabilities	52
26. Usable Reserves	52
27. Unusable Reserves	54
28. Trading Operations	57
29. Pooled Budgets	58
30. Members' Allowances	61
31. Officers' Remuneration	61
32. Termination Benefits	64
33. External Audit Costs	64
34. Dedicated Schools Grant	64
35. Grant Income	66
36. Related Parties	67
37. Capital Expenditure and Capital Financing	69
38. Leases	70
39. Private Finance Initiatives and Similar Contracts	72
40. Impairment Losses	77
41. Retirement Benefits	77
42. Contingent Liabilities	85
43. Nature and Extent of Risks Arising from Financial Instruments	85
44. Heritage Assets: Further information on the Council's collections	89
 GROUP ACCOUNTS	 93
 APPENDIX 1	 99
Accounting Policies	99
 PENSION FUND ACCOUNTS	 118
PENSION FUND INTRODUCTION	120
PENSION FUND ACCOUNT	121
PENSION FUND NET ASSET STATEMENT	122
NOTES TO THE PENSION FUND ACCOUNTS	123
 GLOSSARY	 161
ANNUAL GOVERNANCE STATEMENT	171

NARRATIVE REPORT

INTRODUCTION

This document presents the statutory financial statements for Cambridgeshire County Council (the Council) for the period 1 April 2017 to 31 March 2018 and provides a comprehensive summary of the overall financial position of the Council giving a true and fair view.

The accounts are presented in the format recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code). Our core financial statements use this format and meet the conditions of the Code.

This narrative statement provides a summary of the most significant matters reported within the accounts and of the Council's financial position.

OUR VISION AND AMBITION

Our vision is : Making Cambridgeshire a great place to call home



We are taking a whole Council approach to delivering these outcomes, with all areas of the organisation responsible for their achievement.

The Council has continued to transform the way it operates during 2017-18. We have already made over £176m in savings over the last five years. 2018-19 will require us to find a further £37m largely due to inflation and demographic pressures as well as falling central government grant. As our resources come under increasing pressure our plans for transforming how we support our citizens will be accelerated. The Authority is in the fortunate position of having a transformation fund in excess of £20m in order to invest in the innovation and reform agenda in response to that challenge.

NARRATIVE REPORT

The Council's Business Plan, approved at the Full Council meeting on 6th February 2018, outlines these priorities in more detail and is available at:

<https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/>

OUR PERFORMANCE

The performance of the Council is monitored by the General Purposes Committee using a monthly Integrated Resources and Performance Report, which combines financial reporting with performance reporting. You can view the most recent copies of these reports on our website using the following link:

<https://www.cambridgeshire.gov.uk/council/finance-and-budget/finance-&-performance-reports/>

Performance against the 2017-18 Business Plan

Significant matters and variances are summarised in this section and supported by the detail included in the statement of the accounts and core financial statements.

Key Performance Indicators (KPIs) are grouped by outcome area and their current status and direction of travel are reported to the General Purposes Committee on a monthly basis.

Achievement of the priorities is within the context of the challenging funding position for local authorities. The Council has become more efficient in order to deliver the outcomes it has prioritised and to enable the delivery of the objectives and services that it has planned to deliver within the business plan.

The following table provides a snapshot of the Authority's performance at year end by value and RAG (Red, Amber, Green) status, and was reported to the General Purposes Committee on 29th May 2018.

Budget	Area	Measure	Year End Position	Status
£345.3m	Revenue Budget	Variance (£m)	+£4.0m	Red
-	Key Performance Indicators	Number at target (%)	53% (39 of 73)	Amber
£271.1m	Capital Programme	Variance (£m)	-£85.2m	Green
-	Balance Sheet Health	Net borrowing activity (£m)	£471m	Green

As shown in the table above, 2 of the 3 key financial indicators (Revenue Budget, Capital Programme and Balance Sheet Health) are rated green. The revenue budget position (£4m revenue overspend) is rated Red. Although this is close to within a 1% variance of the budget set, it represents the most

NARRATIVE REPORT

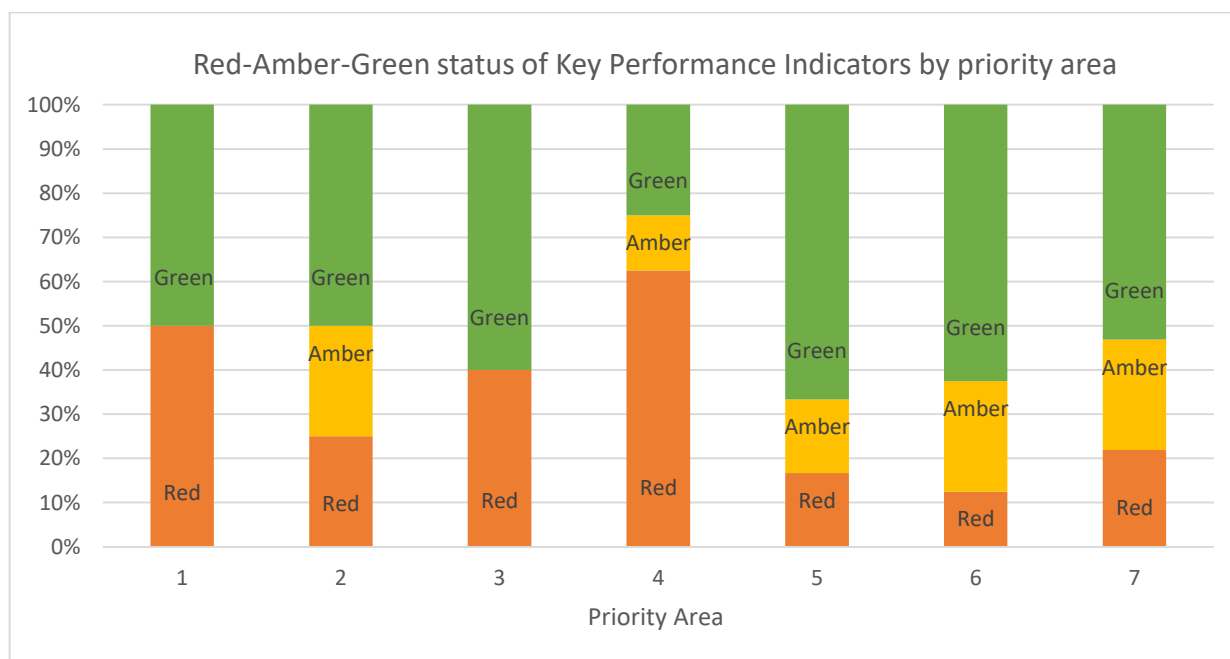
significant year-end overspend the Council has needed to report for some time, following a pattern being faced across the sector, especially in authorities with social care responsibilities.

The capital programme variance is largely explained by re-planning and re-phasing of loan activity related to the Council's This Land housing investment activity (see below)

For the key performance indicators, 53% (39) have been given a green rating, outlining confidence that the target has been met or will be delivered, with 14 being amber rated, and the remaining 20 being red rated.

The graph below shows the performance against the KPI's for each of the priorities identified for 2017-18.

The business plan outlines the priorities for the next 5 years, therefore the red and amber rated KPI's will receive appropriate intervention (in partnership with other agencies, where appropriate) to ensure that the KPI (and therefore the priority) is delivered within the medium term.



Priority Areas

1. Older people live well independently
2. People with disabilities live well independently
3. Adults and children are kept safe
4. People live in a safe environment
5. The Cambridgeshire economy prospers to the benefit of all residents
6. Places that work with children help them to reach their potential
7. People lead a healthy lifestyle and stay healthy for longer

NARRATIVE REPORT

OVERVIEW OF THE YEAR

1. Revenue spending on services

The Council's net cost of services for 2017-18 was £401.0m. This figure was £51.8m higher than the net expenditure for the year of £349.2m that was reported to the General Purposes Committee within the Outturn Integrated Resources and Performance Report in May 2018. The reason for this is that the Statement of Accounts is prepared on a different accounting basis to those reports presented to members for resource allocation decisions. (The Statement of Accounts takes account of charges for items such as capital expenditure and variations in the accounting for retirement benefits.)

The most significant budget pressures during the year were in People and Communities Services, where the year-end overspend was £7m. The pressure in the Children and Safeguarding Directorate was £10.6m and this was partially offset by an increase in the contribution from Dedicated Schools Grant of £3.7m. The number of placements for Looked After Children (LAC) was 6.4% higher than budgeted and the cost per placement was 14.2% higher than budgeted. This was due to the requirement for intensive packages of support in a small number of cases which resulted in an overspend of £3.6m. Additionally, the number of young people with Education Health and Care Plans (EHCP) in Post-16 Further Education providers increased resulting in a £2.1m overspend. The Special Educational Needs Placements budget also faced pressure from a rise in the numbers of children and young people who were LAC and had an EHCP resulting in an overspend of £1.4m.

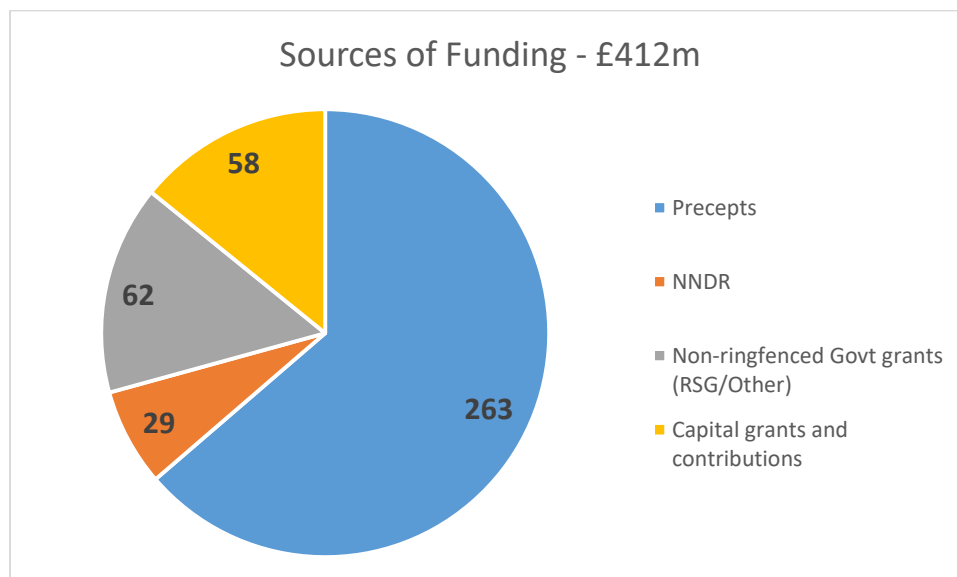
In the Adults and Safeguarding Directorate, the Learning Disability Partnership faced a £3.4m pressure due to increased demand for services and increases in the level of needs identified at reassessment. There was also significant operational activity in response to the sharp rise in hospital admissions and pressures within the local NHS to minimise delays in discharging older people to appropriate community and residential settings. Thanks in part to announcement of the improvement in funding received through the Better Care Fund, Adults Services were able to deliver a balanced financial position overall notwithstanding these major pressures.

The main favourable variances, which partially offset the pressures in Children's Services, occurred in the Council's financing and funding activity. Within the financing items, interest rates on capital financing loans and the minimum revenue provision for the repayment of loan principals were £2.0m lower than budgeted. Additional income was also received through a business rates growth retention pilot. From April 2015 Cambridgeshire has been in a pilot scheme that allows councils to retain 100% of any additional growth in business rates beyond expected forecasts. The Council's share of the additional growth accounted for in 2017/18 was £1.4m.

For much of the year, the forecast overspend remained between £4m and £5m despite growing pressures in People and Communities Services. This is reflective of the Council's efforts to manage budget pressures through service transformation, demand management strategies and efficient use of the Council's financial resources. The £4.0m (1.1%) year-end overspend was balanced by drawing on the general fund reserve; the Council restores the general fund reserve to its planned level as part of annual business planning.

NARRATIVE REPORT

The Council's net budget is mainly financed through council tax, business rates and government grant, and totals £412m as shown below:



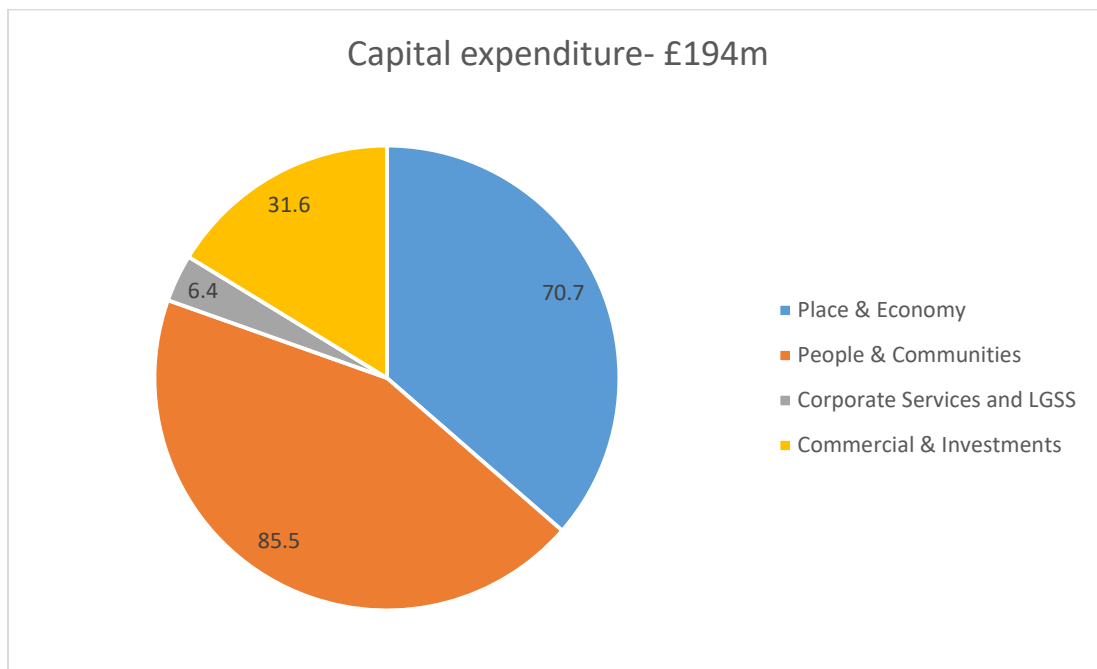
The Council's gross income also includes specific government grants, charges from fees, income from sales, and partnership funding from other public sector bodies. The scale of this income is outlined in the Comprehensive Income and Expenditure Statement.

2. Capital spending and financing

The Council's adjusted capital budget for the year was £271.1m plus £11.1m Greater Cambridge Partnership budget. Actual capital expenditure financed from capital resources for the year was £194.2m, leaving £88m of the adjusted capital budget unspent (31%) at the year end. This was largely due to the timing of spending and does not represent underspends on schemes. Many capital projects span a number of years, so this simply means that expenditure has not occurred as quickly as anticipated. In 2017/18 this related in the main to the Housing Schemes (£83.3m), which did not progress as quickly as originally anticipated in the initial draft model that was created for the 2017-18 Business Planning process; the model has since been refined and updated with work re-phased into future years. Other than the Housing Schemes, the fact that the overall performance is much closer to budget than previous years is encouraging, and reflects the use of a variations budget to account for an expected level of slippage which is inherent within capital projects.

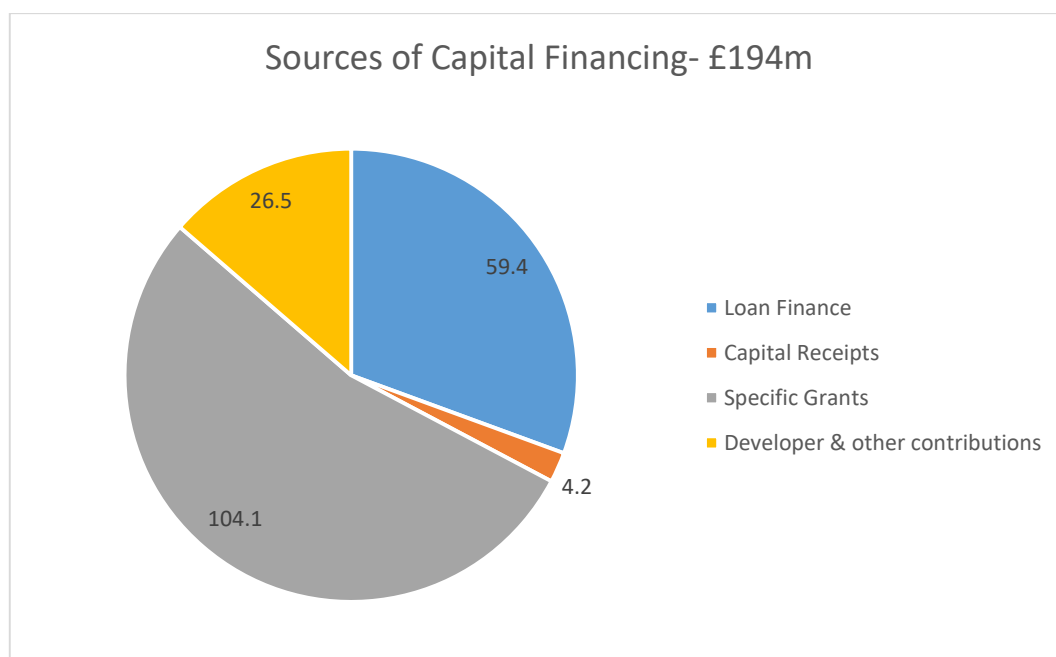
NARRATIVE REPORT

The chart below outlines the £194m investments made during the financial year (in millions of pounds):



The cost of borrowing has been factored into the 2017-18 debt charges outturn position, as well as being accounted for within the 2018-2023 Business Planning process.

The following chart outlines how the £194m capital expenditure was financed this year (in millions of pounds):



NARRATIVE REPORT

Loan finance is undertaken through borrowing, where the Council subsequently meets interest and repayment costs from its own resources.

3. Reserves

The Council's total reserves have decreased in-year by £53.5m, to £719.7m, by 31 March 2018. This balance comprises £130.3m (18%) of 'usable' reserves (cash-backed resources that an authority can apply to the provision of services), and £589.5m (82%) of 'unusable' reserves (those that an authority is not able to utilise to provide services, e.g. the revaluation reserve which contains the gains arising from increases in the value of certain assets). The usable reserves have decreased in-year by £27.5m from £157.8m to £130.3m, largely for intended purposes including capital financing (see [Movement in Reserves Statement](#) and [note 26](#)) and the unusable reserves have decreased in-year by £26.0m from £615.5m to £589.5m, mainly as a result of technical accounting adjustments impacting upon the Pensions Reserve and Capital Adjustment Account (see [note 27](#)).

A proportion of the Council's usable reserves (specifically the General Fund and Earmarked Reserves) provide the organisation with vital flexibility when faced with uncertainty and risk. At 31 March 2018, these reserves stood at £80.2m. Of this balance, the General Fund comprised £13.4m (3.3% of the net 2017-18 budget) and reserves earmarked for specific purposes totaled £66.8m, including £14.2m under the control of locally managed schools, a £22.7m transformation fund which will be used for proposals to generate further savings in future years, and £3.2m to cover insurance risks.

The following table shows the 'net' change (contribution to and from) in these types of reserves:

General Fund and Earmarked Reserves	£m
Balance at 1st April 2017	86.7
General Fund	(2.4)
Schools Carry Forwards	(1.0)
Other Earmarked Reserves	(3.1)
Balance at 31st March 2018	80.2

4. Assets and liabilities

The Council's cash and cash equivalents position increased in the year by £11.4m from £27.9m at 31 March 2017 to £39.3m at 31 March 2018. The £39.3m balance at 31 March 2018 reflected the increase in short term borrowing of £53.1m, up from £95.4m to £148.5m at 31 March 2018.

During 2017-18, the net assets of the Council, and therefore its Balance Sheet value, decreased by £53.5m (a 7% reduction) from an opening balance of £773.2m to a closing balance of £719.7m at 31 March 2018. The material items which caused this net increase in liabilities were the aforementioned £53.1m increase in short term borrowing and a £17.6m increase in capital grants and contributions received in advance. These liabilities were partially offset by the £11.4m increase in cash and cash equivalents and a £9.9m increase in long term debtors.

NARRATIVE REPORT

5. External borrowing and investment

Total debt outstanding at 31 March 2017 was £499.7m (consisting of £351.2m long term borrowing and £148.5m short term borrowing), which was well within the maximum limit determined in accordance with legislation of £929.3m. There was a net increase of £6m in long-term loans in the year and a net increase of £53.1m in short term loans.

Cash surpluses during the year have been invested in accordance with guidance issued by the Government and the Council's agreed Treasury Management Strategy. The primary objective is to ensure that funds are invested prudently, with priority given to security and risk minimisation.

KEY PROJECTS AND ACTIVITIES

Academy Conversions

Since 2010 Central Government has promoted academy schools which have greater autonomy and receive their funding directly from Central Government rather than through the local authority.

As at 31 March 2018, a total of 113 schools had either opened as academies (including free schools) or converted to academy status. This is an increase of 20 conversions (plus 3 new schools) on the numbers a year ago. There are now 129 primaries, 4 special schools, 4 Pupil Referral Units and 5 nurseries in Cambridgeshire which are maintained by the local authority.

Academies produce their own financial statements and this means a sizeable proportion of school spending, assets and workforce information in the Cambridgeshire area is no longer reported as part of the Council's accounts.

Connecting Cambridgeshire

Connecting Cambridgeshire is improving the County's fixed and mobile broadband infrastructure, whilst supporting online skills, business growth and technological innovation to meet future digital challenges.

In March 2017, the Council approved the Cambridgeshire digital connectivity blueprint for 2017-2020 with associated targets for broadband access, mobile coverage and public Wi-Fi access.

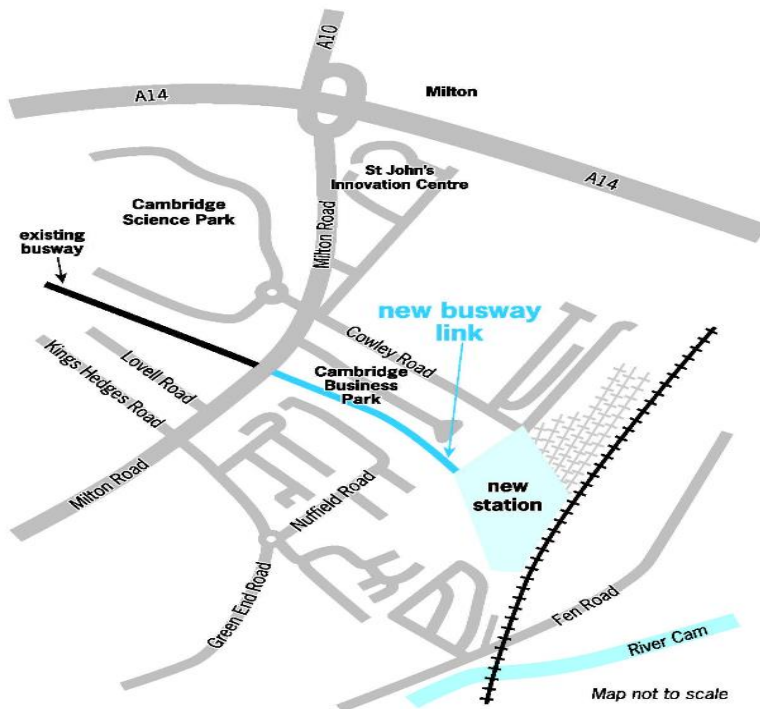


NARRATIVE REPORT

Cambridge North Station

Opened in May 2017, this new railway station serves the north of Cambridge with direct trains to London, Ely, Peterborough and Norwich.

Following the Council's lead on the development phase of the project, Network Rail and the Department for Transport took responsibility for the delivery phase of the scheme. With government funding, the Council has led on access works including the extension of the Busway as well as cycle and footway links.



Greater Cambridge Partnership

Signed in June 2014, the Greater Cambridge Partnership (previously known as the Greater Cambridge City Deal) is a partnership arrangement between the County Council, Cambridge City Council, South Cambridgeshire District Council, the Local Enterprise Partnership and the University of Cambridge. It aims to enable a new wave of innovation-led growth in Cambridge and South Cambridgeshire ("Greater Cambridge") by investing in the infrastructure, housing and skills that will facilitate the continued growth of the Cambridge phenomenon. It acknowledges the city-region's strong track record of delivering growth and seeks to support existing and new businesses in achieving their full potential. The deal agreed between Greater Cambridge and Government allows Greater Cambridge to maintain and grow its status as a prosperous economic area.

The Greater Cambridge Partnership represents a step change in the ability of local partners to deliver the infrastructure necessary to support the area's ambitious growth plans. Greater Cambridge will receive a confirmed £100 million from Government for infrastructure investment up to 2019-20. This scale of investment will enable a strategy that enhances the transport network to link areas of

NARRATIVE REPORT

population and employment within the city-region, through high quality public transport, cycling and pedestrian improvements. It will transform connectivity within Greater Cambridge and around the wider county and Local Enterprise Partnership area. Depending on the economic impact of local investments, Greater Cambridge will be able to access up to an additional £400 million over the following 10 years, in two tranches of £200 million. This complements and sits alongside existing capital expenditure plans in the area.

For further details please visit <https://www.greatercambridge.org.uk/>

Commercial, Assets and Investments

In May 2017, the Council revised its constitutional arrangements to convert the Assets and Investment Committee to a Commercial and Investment Committee. The Committee continues to be tasked with delivering effective governance and management of the Council's property and asset portfolio, as well as accelerating and strengthening commercial and traded activity. Securing increased and recurring commercial income streams is a key part of the Council's financial strategy in response to the budgetary challenges ahead.

During 2017-18 the Council undertook a number of 'Outcomes Focused Reviews' (OFR), each with a Member lead, focused around particular services, particularly in the traded operations portfolio (see page 58). Focused on what we do from the perspective of our citizens, the reviews have also considered cost effectiveness. In the case of the Cambridgeshire Catering and Cleaning Service, the OFR led to the Committee determining to wind down the service during 2018 owing to changes in market conditions.

This Land (Housing Investment)

The Council is in the fortunate position of continuing to be a major landowner in Cambridgeshire. In view of the economic conditions for housing development, the Council has established a company which enables the Council to develop its own land rather than sell it for straightforward capital receipts. The company has developed an initial 10-year pipeline of sites, delivering more than 1000 new homes.

Originally incorporated as the Cambridgeshire Housing and Investment Company, the company was rebranded earlier in the year to 'This Land'.

This Land acquired its first site in February 2018, enabled by loan financing advanced by the Council. Further loan was supplied by the Council to its company at the end of the year as part of a portfolio sale which will see This Land take possession of a portfolio of 26 sites.

Cambridgeshire and Peterborough Combined Authority

The Cambridgeshire and Peterborough Combined Authority (CPCA) was constituted in March 2017. The authority is made up of representatives of the seven local Councils in Cambridgeshire and Peterborough along with the Local Enterprise Partnership and is led by a Mayor, directly elected for the first time in

NARRATIVE REPORT

May 2017. As part of a devolution deal with government, the responsibilities of the Combined Authority include local economic growth, housing, transport and infrastructure improvements and adult skills.

The CPCA now receive the Integrated Transport Block, Highways Maintenance Block and Pothole Action Fund grants from the Department for Transport (DfT) rather than the County Council. CPCA has the power to top-slice the grant allocations before passing them on to the County Council however, for 2017-18, this power was not utilised and thus the funds were effectively passported to the County Council in line with the original DfT allocation and there was therefore no net effect on the Council's accounts. Additionally, CPCA received a £3.7m allocation of the National Productivity Investment Fund in 2017/18 of which £2.9m was awarded to the Council.

In March 2018, the County Council, along with the other constituent Councils, consented to a widening of the Combined Authority's powers to borrow. This was followed in May 2018 by County Council consent to devolution of the Adult Education Budget to the Combined Authority and the facility to raise an additional levy on business rates.

Meanwhile, the Greater Cambridge Peterborough LEP, for which the County Council had been the accountable body, ceased to operate as of 1 April 2018. A new LEP known as the "Business Board" and supported by the Combined Authority has been established as a successor.

Pensions

The accounts reflect the underlying commitment that the Council has to pay future retirement benefits for its employees. This information has been compiled by the Fund's actuary in accordance with the International Accounting Standard 19 Employee Benefits (IAS 19 (Revised 2011)).

The estimated pension deficit for the Council, measured on an actuarial basis, has increased from £510m at 1 April 2017 to £522m at 31 March 2018. The fair value of plan assets increased by £6m during 2017-18; however this has been more than offset by an increase of £18.2m in the value of the Fund's liabilities. Overall this has resulted in a £12.2m increase in the deficit amount (see [note 41](#)).

LGSS Summary

LGSS is the shared back office operation with three partners – Milton Keynes Council (MKC), Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC). LGSS began in October 2010 with MKC joining as a third Partner from 1 April 2016. LGSS provides a wide range of strategic, professional, operational and transactional services including finance, pensions, procurement, audit, HR, IT and transactional financial services.

It is governed by a Joint Committee with the financial transactions of each shareholder council included in the respective council's statutory accounts.

All surpluses and deficits, after any retained earnings re-invested by LGSS, are shared on a pre-agreed basis.

NARRATIVE REPORT



Workforce Profile

The Council is an equal opportunities employer and promotes fairness to all. For further information please see the Workforce Profile which is available at the following link:

<https://www.cambridgeshire.gov.uk/council/communities-&-localism/equality-and-diversity/>

THE STATEMENT OF ACCOUNTS

The purpose of these accounts is to present a true and fair view of the financial results of the Council's activities for the year ended 31 March 2018, and to summarise the overall financial position of the Council as at 31 March 2018. This section provides an overview of the financial performance of the Council. The Statement of Accounts brings together the major financial statements for the Council for the financial year 2017-18. The various sections, and their contents, are as follows:

Statement of Responsibilities, Certificate and Approval of Accounts (page 20)

This statement sets out the responsibilities of the Council and the Chief Finance Officer of the Council regarding the proper administration of the Council's finances.

Independent Auditors' Report to Members (page 22)

This reports the independent auditors' opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements, of the financial position of the Council, its income, expenditure and cash flows for the year, the financial transactions of the Pension Fund, the amount and disposition of the Fund's assets and liabilities (other than liabilities to pay pensions), and other benefits that will arise after the end of the year.

Comprehensive Income and Expenditure Statement (page 23)

This Statement is fundamental to the understanding of the Council's activities as it reports the net cost for the year of all of the functions for which the Council is responsible. It also demonstrates how that cost has been financed from general government grants and income from local taxpayers. The presentation of this statement changed in 2016-17, due to a change within the CIPFA Code, so the cost of services is now displayed based upon the Council's directorate structure.

The net cost of services for 2017-18 across the Council's directorates was £401m. After taking into consideration other operating expenditure, financing and investment income/expenditure, grant income, and income from taxation (Council Tax and Business Rates), the Council's deficit on the provision of services was £100m.

NARRATIVE REPORT

Movement in Reserves Statement (page 24)

This statement shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The 'surplus or (deficit) on provision of services' is included within the Total Comprehensive Income and Expenditure line, and shows the true economic cost of providing the Council's services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund balance for Council Tax setting purposes.

The headline figures from this statement are that the Council's General Fund and earmarked reserves have reduced overall by £6.5m in 2017-18. The balance in the Capital Grants Unapplied Reserve has decreased by £19.9m due to the net effects of income received in year, reclassifications and the funding of capital expenditure in 2017-18. The Council's Unusable Reserves have reduced by £26.0m, largely as a result of technical accounting adjustments impacting upon the Pensions Reserve and Capital Adjustment Account.

Balance Sheet (page 25)

The Balance Sheet presents the value of the Council's current and non-current assets and liabilities recognised by the Council as at 31st March 2018 with the bottom line effectively being the net worth of the organisation. The net assets of the Council (assets less liabilities) are matched by the level of 'usable' and 'unusable' reserves held. Usable reserves are those resources that the Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Council is not able to use to provide services. Unusable reserves include those that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences as shown by the 'adjustments between accounting basis and funding basis under regulations' line in the Movement in Reserves Statement.

The headline figures from this statement are an increase of £1.9m in investment property from £7.2m as at 31st March 2017 to £9.1m as at 31st March 2018, an increase of £5.8m in assets held for sale from £3.5m as at 31st March 2017 to £9.3m as at 31st March 2018, an increase of £11.4m in cash and cash equivalents from £27.9m as at 31st March 2017 to £39.3m as at 31st March 2018, an increase of £53.1m in short term borrowing from £95.4m as at 31st March 2017 to £148.5m as at 31st March 2018, and an increase of £13.7m in capital grants and contributions received in advance from £30.2m to £43.9m.

Cash Flow Statement (page 26)

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. It outlines the changes in the cash and cash equivalents, for example changes in debtor balances (those owing the Council money) and creditor balances (those which the Council owes money to) during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The headline figures from this statement are that during 2017-18 the Council's cash and cash equivalents increased by £11.4m from £27.9m as at 31st March 2017 to £39.3m as at 31st March 2018.

NARRATIVE REPORT

Cash flows from the Council's investing activities included receipt of £72.1m of capital grants. Purchases of property, plant and equipment were £96.7m. Cash flows from the Council's financing activities included cash receipts of short term and long term borrowing of £303.6m, and repayments of short term and long term borrowing of £244.6m.

Borrowing and investments were made in accordance with the Council's published Treasury Management Strategy.

Expenditure and Funding Analysis (page 27)

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

The decrease in the General Fund is £6.5m, being net expenditure chargeable to the Council's General Fund is £2.4m and a £4.1m net reduction to earmarked reserves. This differs from the income and expenditure shown in the CIES by £93.5m. This difference comprises a number of technical accounting adjustments which the Council is required to make by the Code, including capital charges such as depreciation, actuarial pensions adjustments and adjustments to the Collection Fund. A reconciliation of these adjustments is shown in [note 2](#) to the accounts.

Notes to the core financial statements (page 27)

The notes to the financial statements are essential in the presentation of a true and fair view for the accounts. They present information about the basis of preparation of the financial statements and the specific accounting policies used; explain how transactions have been accounted for; and provide information that is not provided elsewhere in the financial statements, but is relevant to an understanding of them.

Pension Fund accounts (page 118)

The objective of the Pension Fund financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. The statements show the results of the stewardship of management; the accountability of management for the resources entrusted to it, and of the disposition of its assets at the year end. The Council administers this Fund on behalf of all local authorities in Cambridgeshire, plus a number of other public and voluntary bodies, and commercial organisations. In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

NARRATIVE REPORT

RISK MANAGEMENT AND ARRANGEMENTS FOR VALUE FOR MONEY

The Council has developed a range of integrated approaches and organisational processes which together help to drive risk management and value for money.

Members exercise strategic leadership by developing the Council's vision and priorities and keeping these under-review. There is an established business planning process which ensures that services are delivered in accordance with the Council's objectives and represents the best use of resources. The Annual Governance Statement on page 171 sets out the Council's wider approach to risk management.

The Council's Scheme of Financial Management sets out the internal regulatory framework for financial control, procurement compliance and resource distribution. Following the agreement of the budget by Members, savings delivery is closely monitored through a "tracker methodology" alongside monthly reporting to Council Committees.

FUTURE CHALLENGES AND MEDIUM TERM OUTLOOK

Cambridgeshire is one of only ten Councils who have not accepted the government's multi-year funding settlement, this adds a further level of uncertainty regarding how any changes to government funding will be applied.

Looking forward, cost pressures are forecast to outstrip available resources. Cambridgeshire is the fastest growing county in England. These demographic pressures combine with rising costs caused by inflation, including the rising national living wage and reducing levels of funding as part of a medium term economic outlook which is uncertain. Consequently, the Council needs to make significant savings to close the budget gap.

The following table illustrates the current size of the challenge that lies ahead (as presented to Council on the 6th February 2018), as it sets out the latest annual savings requirement:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Total £000
Total Savings Requirement For The Year	37,013	26,514	15,779	-1,217	3,989	82,078
2018-19 Ongoing savings		37,013	37,013	37,013	37,013	
2019-20 Ongoing savings			26,514	26,514	26,514	
2020-21 Ongoing savings				15,779	15,779	
2021-22 Ongoing savings					-1,217	
Total Savings For The Year (Including Ongoing Savings)	37,013	63,527	79,306	78,089	82,078	

NARRATIVE REPORT

CONCLUSION

I am extremely grateful to all the finance staff and others involved with budgetary control across the Council, for the support and enthusiasm that they have brought to the many and challenging tasks they have faced, and who have worked hard to close the accounts to a demanding timescale.



Chris Malyon
Deputy Chief Executive and Chief Finance Officer (Section 151 Officer)

FURTHER INFORMATION

Further information about the Statement of Accounts can be obtained from the Council's website or Corporate Finance:

Address: OCT1114, Shire Hall,
Cambridge,
CB3 0AP

Telephone: 0345 045 5200

Email: LGSS.finance@cambridgeshire.gov.uk

Web: [Statement of Accounts](#)

NARRATIVE REPORT

STATEMENT OF RESPONSIBILITIES

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- Approve the Statement of Accounts;
- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer (Section 151 Officer);
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Local Authority Code.

The Chief Finance Officer also has to have:

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

CERTIFICATE OF ACCOUNTS

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2018 and its income and expenditure for the year 2017-18, and authorise the accounts for issue.



Chris Malyon
Chief Finance Officer
Date: 31st May 2018

NARRATIVE REPORT

APPROVAL OF ACCOUNTS

I confirm that these accounts were approved by the Council at the meeting of the Audit and Accounts Committee held on 30th July 2018.

Signed on behalf of
Cambridgeshire County Council:

Cllr. Michael Shellens
Chairman of the Audit and Accounts Committee

Date:

INDEPENDENT AUDITORS' REPORT

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016-17			2017-18			
Gross Expenditure	Gross Income	Net Expenditure/ Income (-)		Gross Expenditure	Gross Income	Net Expenditure/ Income (-)
£000	£000	£000		£000	£000	£000
115,824	-28,908	86,916	Place and Economy	139,410	-50,826	88,584
701,604	-374,072	327,532	People and Communities	701,966	-430,121	271,845
21,301	-21,027	274	Public Health	27,177	-26,505	672
12,147	-696	11,451	Corporate Services	24,502	-2,846	21,656
8,127	-1,630	6,497	LGSS Managed	5,051	-1,277	3,774
12,513	-7,390	5,123	Commercial & Investments	21,473	-18,458	3,015
22,049	-12,190	9,859	LGSS Operational	22,207	-10,741	11,466
893,565	-445,913	447,652	Cost Of Services	941,786	-540,774	401,012
88,668	-	88,668	Other operating expenditure (note 11)	73,935	-	73,935
43,121	-6,749	36,372	Financing and investment income/ expenditure (note 12)	40,918	-3,461	37,457
-	-439,770	-439,770	Taxation and Non-Specific Grant Income (note 13)	-	-412,349	-412,349
		132,922	Surplus (-) or Deficit on Provision of Services			100,055
		-101,748	Surplus on revaluation of Property, Plant and Equipment			-57,316
		28,819	Impairment and revaluation losses charged to the Revaluation Reserve			21,755
		8,478	Re-measurement of net pension benefit/ liability			-10,998
		-64,451	Other Comprehensive Income (-) and Expenditure			-46,559
		68,471	Total Comprehensive Income (-) and Expenditure			53,496

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

MOVEMENT IN RESERVES STATEMENT

	¹ General Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Usable Reserves Total £000	Unusable Reserves Total £000	Reserves Total £000
Balance at 1-Apr-16	85,597	-	124,769	210,366	631,337	841,703
Movement in 2016-17:						
Total comprehensive income and expenditure	-132,922	-	-	-132,922	64,451	-68,471
Adjustments between accounting and funding basis under regulations (note 9)	134,030	1,116	-54,812	80,334	-80,334	-
Increase/ decrease (-) in 2016-17	1,108	1,116	-54,812	-52,588	-15,883	-68,471
Balance at 31-Mar-17	86,705	1,116	69,957	157,778	615,454	773,232
Movement in 2017-18:						
Total comprehensive income and expenditure	-100,055	-	-	-100,055	46,559	-53,496
Adjustments between accounting and funding basis under regulations (note 9)	93,537	-1,116	-19,896	72,525	-72,525	-
Increase/ decrease (-) in 2017-18	-6,518	-1,116	-19,896	-27,530	-25,966	-53,496
Balance at 31-Mar-18	80,187	-	50,061	130,248	589,488	719,736

¹ The General Fund balance in this table combines the General Fund and Earmarked Reserves. The 31st March 2017 and 31st March 2018 balances consists of the following:

	Balance at 31 Mar-17 £000	Movement £000	Balance at 31 Mar-18 £000
General Fund	15,808	-2,412	13,396
Earmarked Reserves	70,897	-4,107	66,790
Total combined balance	86,705	-6,518	80,187

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

BALANCE SHEET AS AT 31 MARCH 2018

¹ 31-Mar-17 £000		Note	31-Mar-18 £000
1,779,154	Property, Plant and Equipment	14	1,778,943
20,705	Heritage Assets	15	21,214
7,222	Investment Property	18	9,101
258	Intangible Assets		895
400	Long Term Investments		400
71,370	Long Term Debtors	16	81,266
1,879,108	Long Term Assets		1,891,819
-	Investments		-
3,531	Assets Held for Sale	22	9,360
924	Inventories		860
102,910	Short Term Debtors	20	99,661
27,926	Cash and Cash Equivalents	21	39,280
135,291	Current Assets		149,161
-	Cash and Cash Equivalents	21	-
-95,399	Short Term Borrowing	17	-148,522
-127,432	Short Term Creditors	23	-127,414
-4,013	Provisions	24	-3,715
-6,829	Capital Grants and Contributions Receipts in Advance	35	-2,928
-233,673	Current Liabilities		-282,579
-5,682	Provisions	24	-5,824
-345,298	Long Term Borrowing	17	-351,214
-633,190	Other Long Term Liabilities	25	-640,690
-23,326	Capital Grants and Contributions Receipts in Advance	35	-40,936
-1,007,495	Long Term Liabilities		-1,038,664
773,232	Net Assets		719,737
157,778	Usable Reserves	26	130,248
615,454	Unusable Reserves	27	589,488
773,232	Total Reserves		719,736

The Balance Sheet shows the value of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the level of reserves held by the Council. 'Usable' reserves are those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). 'Unusable' reserves are those that are not able to be used to provide services and include those that hold unrealised gains and losses (i.e. Revaluation Reserve), where amounts only become available to use if assets are sold; and reserves that hold timing differences. The notes and appendix on pages 27 to 92 form part of the financial statements.

CASH FLOW STATEMENT

2016-17 £000		2017-18 £000
132,922	Net deficit on the provision of services	100,055
-38,350	Depreciation	-37,331
-48,199	Impairment and downward valuations	-14,679
-	Amortisation	-288
-25	Movement in impairment for bad debts	-569
-25,679	Increase (-)/ decrease in creditors	4,069
14,601	Increase/ decrease (-) in debtors	7,730
-26	Increase/ decrease (-) in inventories	-64
-21,952	Movement in pension liability (difference between employer's contributions paid and IAS19 adjustments)	-23,198
-88,538	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	-77,149
6,488	Other non-cash items charged to the deficit on the provision of services	1,979
-201,679	Adjustments to the net deficit on the provision of services for non-cash movements:	-139,500
252	Proceeds from the sale of property, plant and equipment	514
69,480	Grants for financing capital expenditure	58,380
69,732	Adjustments for items included in the deficit on the provision of services that are investing and financing activities	58,894
974	Net cash flows from Operating Activities	19,449
112,433	Purchase of property, plant and equipment	96,652
-	Purchase of short-term and long-term investments	-
-	Proceeds from short-term and long-term investments	-
-252	Proceeds from the sale of property, plant and equipment	-514
-61,221	Capital Grants Received	-72,089
50,961	Investing Activities	24,049
-173,476	Cash receipts of short and long-term borrowing	-303,598
2,166	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts (Principal)	-304
92,512	Repayments of short and long-term borrowing	244,559
-	Other payments for financing activities	4,491
-78,797	Financing Activities	-54,852
-26,862	Net increase (-)/ decrease in cash and cash equivalents	-11,354
1,064	Cash and cash equivalents at the beginning of the reporting year	27,926
27,926	Cash and cash equivalents at the end of the reporting year (note 21)	39,280

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

NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE AND FUNDING ANALYSIS

Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	2016-17 Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	2017-18 Net Expenditure in the Comprehensive Income and Expenditure Statement £000
62,189	24,727	86,916	Place and Economy	65,156	23,428	88,584
255,136	72,396	327,532	People and Communities	243,184	28,661	271,845
245	29	274	Public Health	385	287	672
8,021	3,430	11,451	Corporate Services	30,033	-8,377	21,656
3,985	2,512	6,497	LGSS Managed	3,748	26	3,774
3,212	1,911	5,123	Commercial & Investments	913	2,102	3,015
9,477	382	9,859	LGSS Operational	9,510	1,956	11,466
342,263	105,389	447,652	Net cost of services	352,930	48,082	401,012
-343,372	28,642	-314,730	Other income and expenditure	-346,411	45,454	-300,957
-1,108	134,030	132,922	(Surplus) or Deficit	6,518	93,537	100,055
-85,597			Opening General Fund Balance at 31 March	-86,705		
-1,108			Plus Surplus(-) / Deficit on General Fund Balance in Year	6,518		
-86,705			Closing General Fund Balance at 31 March	-80,187		

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Council (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. The "Other income and expenditure" line relates to all income and expenditure outside of the Net cost of services. This includes the following lines within the Comprehensive Income and Expenditure Statement; Other operating expenditure, Financing and investment income and expenditure, Taxation and non-specific grant income and expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

2. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2017-18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000	£000
Place and Economy	20,387	3,067	-26	23,428
People and Communities	17,642	14,151	-3,132	28,661
Public Health	-	289	-3	287
Corporate Services	1,344	-9,709	-12	-8,377
LGSS Managed	-	26	-	26
Commercial & Investments	1,968	154	-20	2,102
LGSS Operational	-	1,977	-21	1,956
Net cost of services	41,341	9,955	-3,214	48,082
Other income and expenditure from the Expenditure and Funding Analysis	28,536	13,243	3,675	45,454
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	69,878	23,198	461	93,537

Adjustments between Funding and Accounting Basis 2016-17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000	£000
Place and Economy	24,347	389	-9	24,727
People and Communities	72,795	1,663	-2,062	72,396
Public Health	0	30	-1	29
Corporate Services	1,020	2,413	-2	3,430
LGSS Managed	2,508	5	0	2,512
Commercial & Investments	1,880	32	-1	1,911
LGSS Operational	0	389	-7	382
Net cost of services	102,550	4,921	-2,082	105,389
Other income and expenditure from the Expenditure and Funding Analysis	15,431	17,031	-3,820	28,642
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	117,981	21,952	-5,902	134,030

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments for Capital purposes

- In the **service lines** this column records adjustments in respect of depreciation, revenue expenditure funded from capital under statute (REFCUS), revaluation gains/losses, and Private Finance Initiative and lease movements.
- **Other Operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices. There are also adjustments for movements in the market value of investment properties.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

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

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

Other Differences

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute.

- **For services** this comprises the accrual made in respect of accumulated absences.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future shares of the Collection Fund surpluses or deficits declared by the billing authorities.

NOTES TO THE CORE FINANCIAL STATEMENTS

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2016/17	2017/18
	£000	£000
Expenditure/Income		
Expenditure		
Employee benefits expenses	299,936	278,151
Other services expenses	546,227	619,372
Support service recharges	-	-
Depreciation, amortisation, impairment	47,403	44,263
Interest payments	43,121	40,918
Precepts and levies	381	385
Loss on the disposal of asset	88,287	73,550
Total expenditure	1,025,355	1,056,639
Income		
Fees, charges and other service income	-136,862	-170,645
Interest and investment income	-6,749	-3,461
Income from council tax and non-domestic rates	-318,996	-329,186
Government grants and contributions	-429,826	-453,291
Total income	-892,432	-956,584
(Surplus) or Deficit on the Provision of Services	132,922	100,055

4. ACCOUNTING POLICIES

For the Accounting Policies refer to Appendix 1.

5. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2017-18 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the new or amended standards within the 2018-19 Code. The 2018-19 Code has not yet been issued to enable full assessment, as the detailed application to Local Authority Accounting is unknown. The impact of new standards are not expected to have a material impact on the 2017/18 or 2018/19 Accounts.

The standards that may be relevant for additional disclosures that will be required in the 2017/18 and 2018/19 financial statements in respect of accounting changes that are introduced in the 2018/19 Code (i.e. that are relevant to the requirements of paragraph 3.3.4.3) are:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers*

NOTES TO THE CORE FINANCIAL STATEMENTS

- amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.
- If any of the above amendments are expected to have a material impact on information in the financial statements, authorities should refer to Appendix C in the 2018/19 Code in relation to their own disclosures regarding the amendments to the above mentioned standards.
- The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated. Appendix C in the Code confirms that there is no requirement to provide financial information relating to the impact of IFRS 9 for the 2017/18 year in the 2017/18 financial statements.

6. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- Property valuations are provided by component on a rolling programme every five years by a combination of internal and independent external valuers (with a significant proportion undertaken by external valuers in the last two years), with moderation undertaken by the Council's internal valuers. In order to validate use of the rolling programme to undertake valuations, the Council performs an annual exercise to determine whether there is any material misstatement in the overall asset portfolio. If it is concluded that there is a material misstatement, then the revaluations will be brought up to date either by revaluation or by use of indices. All valuations are prepared in accordance with the Council's accounting policy (see [appendix 1](#)). Depreciation of capital assets is based on their useful economic life and any increase or decrease in useful lives will affect the level of depreciation and the carrying value of the assets;
- The Council currently has 3 PFI contracts with private sector partners. These are as follows:
 - AmeyCespa Limited – to provide waste treatment and household waste facilities for the county until 2036;
 - Balfour Beatty plc. – to replace Cambridgeshire's existing Street Lighting network, and subsequent maintenance until 2036; and
 - Equitix Learning Community Partnerships – for the construction of Thomas Clarkson Community College (with a concession period until January 2037) as part of the Building Schools for the Future programme.

For the Waste and Street Lighting schemes, the Council is deemed to control the service provision, own the risks and rewards of the assets and will either take ownership of the assets, or have the option to renew the lease. As such, all relevant income, expenditure, assets and liabilities have been recognised on this basis. In relation to the Building Schools for the Future scheme, Thomas Clarkson Community

NOTES TO THE CORE FINANCIAL STATEMENTS

College has academy status, and as such, its assets are not recognised on the Council's Balance Sheet (in accordance with the Council's accounting policy). However, the associated liabilities are recognised, as the contractor has met their commitments in terms of their right to receive payments from the Council for the capital element of the scheme, and there is no recourse to the school for any future payments. This accounting treatment creates a subsequent loss. However as there are no Academy assets on the Council's Balance Sheet to charge this against it is charged to the Comprehensive Income and Expenditure Statement as Revenue Expenditure Funded as Capital Under Statute (REFCUS).

- Heritage assets held on deposit to the value of £21.2m have been included within the Council's Heritage Asset balance. Many of these deposits have been made without any kind of formal agreement that states who retains ownership, and for how long the deposit has been made. The Council has reviewed £17.8m of this balance to determine when they were placed on deposit, and for the vast majority of items the deposits were made between 1934 and 1989. As such, given the long-term nature of the deposits, the Council has concluded that it effectively retains control of all assets on deposit and has therefore included these values within the Heritage Assets balance. However, there remains £3.4m of Heritage Assets that have not actually been reviewed to determine their individual lengths of deposit.
- The Council has judged that the stipulation in its Section 106 agreements, regarding a requirement for it to use funds within a set timeframe, is a condition attached to the provision of the funding. The Council has applied this judgement across all of its Section 106 agreements which in 2017-18 results in the recognition of £44m receipts in advance liability.

7. 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 or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>Asset valuations are completed on a 5 year rolling basis and values are reviewed annually to ensure they are not materially misstated.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1m for every year that useful lives had to be reduced.</p> <p>In order to ensure that carrying values are kept in line with fair values in the interim, the Council undertakes a material misstatement analysis annually and adjusts for any material variances if required. This analysis involves either a) a desktop valuation of assets over a certain value, b) a market review undertaken by the Council's external valuers, and if necessary, c) an indexation analysis that assesses when a depreciated replacement cost asset was last revalued and applies an index to it based on Building Cost Information Service forecasts and land value calculations for every year since it was last revalued. As at 31 March 2017 the Council's asset portfolio includes £12.5m of assets with an indexed valuation, which was developed in 2015/16. Had the indices used in 2015/16 been 1% higher it was estimated that this adjustment would have been £2.0m higher. No additional indexation was applied in 2017/18.</p>
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effect on the pension's liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> • 1 year increase in member life expectancy would result in an increase in the liability of approximately 3%-5%; • 0.5% decrease in the Real Discount Rate would result in an increase in the liability of approximately £152m (10%); and • 0.5% increase in the Pension Increase Rate would result in an increase in the liability of approximately £133m (9%).

8. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events occurring after the Balance Sheet date that require disclosure to enable readers to gain a proper understanding of the financial position of the Council up to the date when this Statement of Accounts was authorised for issue by the Chief Finance Officer.

A 'non-adjusting' event is indicative of conditions that arose after the Balance Sheet date.

NOTES TO THE CORE FINANCIAL STATEMENTS

'Non-adjusting' Events After The Balance Sheet Date

Schools converting to Academy status

Academies are publicly funded independent schools that were first introduced in 2000 to replace failing secondary schools, or provide new schools where there was not enough high quality provision. Subsequent legislation (Academies Act 2010) enabled many more high performing schools to be free to innovate and operate independently of local authorities.

A further 10 schools have, or are expected to open or convert to Academy status before the 31 March 2019, with further new schools opening and conversions expected to take place in future years. By the end of the 2018-19 financial year, it is expected that local authority maintained schools with a current net book value totalling £74m will have converted to Academy status since the Balance Sheet date. As with schools already converted, the assets of these schools will be derecognised from the Council's Balance Sheet in 2018-19.

Asset Disposals and Loans

The This Land Group completed further asset purchases of land from Cambridgeshire County Council in early April 2018. The value of these disposals totalled £24.4m. In addition, the This Land Group also undertook additional borrowing of £5.7m from Cambridgeshire County Council. It is expected by 31st July 2018 that a further £10.3m of sales will have been completed and that a further £5.7m of loans will have been issued.

9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Movements in balances in 2017-18:

2017-18	Usable Reserves		
	General Fund	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs	23,198	-	-
Financial Instruments	-47	-	-
Council Tax and NDR	3,722	-	-
Holiday pay	-3,214	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	81,993	-	96,373
Total Adjustments to Revenue Resources	105,652	-	96,373
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-3,089	3,089	-
Administrative costs of non-current asset disposals	196	-4	-
Statutory provision for the repayment of debt	-9,165	-	-
Capital expenditure financed from revenue balances	-56	-	-
Total Adjustments between Revenue and Capital Resources	-12,114	3,085	-
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-4,201	-
Application of capital grants to finance capital expenditure	-	-	-116,269
Cash payments in relation to deferred capital receipts	-1	-	-
Total Adjustments to Capital Resources	-1	-4,201	-116,269
Total Adjustments	93,537	-1,116	-19,896

NOTES TO THE CORE FINANCIAL STATEMENTS

Movements in balances in 2016-17:

2016-17	Usable Reserves		
	General Fund	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs	21,952	-	-
Financial Instruments	-51	-	-
Council Tax and NDR	-3,820	-	-
Holiday pay	-2,082	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	132,356	-	66,049
Total Adjustments to Revenue Resources	148,355	-	66,049
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-1,897	1,897	-
Administrative costs of non-current asset disposals	-15	-3	-
Statutory provision for the repayment of debt	-12,413	-	-
Capital expenditure financed from revenue balances	-	-	-
Total Adjustments between Revenue and Capital Resources	-14,325	1,894	-
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-778	-
Application of capital grants to finance capital expenditure	-	-	-120,861
Cash payments in relation to deferred capital receipts	-	-	-
Total Adjustments to Capital Resources	-	-778	-120,861
Total Adjustments	134,030	1,116	-54,812

NOTES TO THE CORE FINANCIAL STATEMENTS

10. TRANSFERS TO/FROM EARMARKED RESERVES

The Council's Earmarked Reserve balances including an analysis of respective in-year movements are as follows:

	Balance at 01 Apr-16 £000	Transfers Out 2016-17 £000	Transfers In 2016-17 £000	Balance at 31-Mar-17 £000	Transfers Out 2017-18 £000	Transfers In 2017-18 £000	Balance at 31-Mar-18 £000
Carry forward – Schools	20,644	-21,281	15,806	15,169	-15,372	14,358	14,156
Carry forward – Other	8,834	-15,821	12,003	5,016	-4,027	250	1,238
Insurance Reserve	2,864	-4,405	4,810	3,269	-3,136	3,042	3,175
Transformation Reserve	11,853	-910	9,582	20,525	-6,596	8,793	22,722
Other Earmarked Reserves	22,481	-23,236	27,673	26,918	-21,316	19,897	25,499
Total	66,676	-65,653	69,874	70,897	-50,446	46,340	66,791

The Council has created a transformation fund reserve financed from an adjustment to debt defrayment, with the two planned transfers to the fund shown in the table above. The General Purposes Committee decides on transfers out of the fund towards specific projects which have a business case showing a return to the Council, as part of the drive to transform services and deliver savings of £100m across five years.

The School Carry forward reserve consists mainly of revenue balances held by individual maintained schools as part of their overall delegated funding. This funding remains in individual school bank accounts, but is consolidated into the overall accounts for reporting purposes. The reserve also contains other small elements of school funding in relation to Pupil Premium, Universal Infant Free Schools Funding and the pooled absence scheme for primary schools. These balances are subject to conditions of grant or local schemes and as such will be allocated in agreement with these arrangements during 2018/19.

11. OTHER OPERATING EXPENDITURE

Listed below are items of income and expenditure that cannot reasonably be allocated or apportioned to services.

2016-17 £000		2017-18 £000
88,287	Losses on the disposal of non-current assets	73,550
381	Levies	385
88,668	Total	73,935

NOTES TO THE CORE FINANCIAL STATEMENTS

12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

This contains items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions.

2016-17 £000		2017-18 £000
26,090	Interest payable and similar charges	27,675
17,031	Net interest on the net defined benefit liability	13,243
-1,408	Interest receivable and similar income	-1,928
-5,579	Income and expenditure in relation to investment properties and changes in their fair value	-1,690
238	Trading Accounts	157
36,372	Total	37,457

13. TAXATION AND NON-SPECIFIC GRANT INCOMES

This item consolidates all the grants and contributions receivable that cannot be identified to particular service expenditure. All capital grants and contributions are shown below, even where they are service-specific.

2016-17 £000		2017-18 £000
-254,878	Council tax income	-262,604
-64,118	Non-domestic rates	-66,583
-51,294	Non-ringfenced government grants	-24,782
-69,480	Capital grants and contributions	-58,380
-439,770	Total	-412,349

14. PROPERTY, PLANT AND EQUIPMENT

Movements in balances in 2016-17 and 2017-18:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in PPE
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1-Apr-16	1,024,143	17,840	890,309	686	5,843	53,062	1,991,883	115,368
Prior Period Adjustment	-	-	-53,798	-	-	-	-53,798	-
At 1-Apr-16 REVISED	1,024,143	17,840	836,511	686	5,843	53,062	1,938,085	115,368
Additions	-	-	46,380	-	-	77,618	123,998	2,409
Donations	-	-	-	-	-	-	-	-
Revaluation increases/ decreases (-) recognised in the Revaluation Reserve	61,449	-	-	-	1,190	-	62,639	-
Revaluation increases/ decreases (-) recognised in the surplus/ deficit on the Provision of services	-39,532	-	-	-	-854	-	-40,386	-
Derecognition and Disposals	-66,760	-	-506	-	-	-22,464	-89,731	-
Assets reclassified to (-)/ from Held for Sale	-3,024	-	-	-	-	-	-3,024	-
Assets reclassified to (-)/ from PPE	36,013	-	1	-	-714	-35,300	-	-
Assets reclassified to (-)/ from Investment Properties	-	-	-	-	-	-442	-442	-
Assets reclassified to (-)/ from Intangible Assets	-30	-	-	-	-	-228	-258	-
Other movements in Cost or Valuation	-20	-	1	-	-	-	-19	-
At 31-Mar-17	1,012,239	17,840	858,220	686	5,465	72,246	1,966,696	117,777
Accumulated Depreciation and Impairment								
At 1-Apr-16	-36,003	-14,936	-179,492	-	-	-	-230,431	-45,598
Prior Period Adjustment	-	-	53,798	-	-	-	53,798	-
At 1-Apr-16 REVISED	-36,003	-14,936	-125,694	-	-	-	-176,633	-45,598
Depreciation charge	-13,564	-1,104	-23,662	-	-20	-	-38,350	-4,199
Depreciation written out to the Revaluation Reserve	10,232	-	-	-	57	-	10,289	-
Depreciation written out to the surplus/ deficit on the provision of services	1,232	-	-	-	10	-	1,242	-
Impairment losses/ reversals (-) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/ reversals (-) recognised in the surplus/ deficit on the provision of services	-	-	-	-	-	-9,054	-9,054	-
Derecognition and Disposals	680	-	117	-	-	-	797	-
Other movements in Depreciation and Impairment	71	-	-	-	-71	-	-	-
At 31-Mar-17	-37,352	-16,040	-125,072	-	-24	-9,054	-187,542	-49,797
Net Book Value								
At 31-Mar-17	974,887	1,800	733,148	686	5,441	63,192	1,779,154	67,980
At 31-Mar-16	988,140	2,904	710,817	686	5,843	53,062	1,761,452	69,770

NOTES TO THE CORE FINANCIAL STATEMENTS

	Land & Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in PPE
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1-Apr-17	1,012,239	17,840	858,220	686	5,465	72,246	1,966,696	117,777
Additions	-	-	68,262	-	-	32,137	100,399	-
Donations	-	-	-	-	-	-	-	-
Revaluation increases/ decreases (-) recognised in the Revaluation Reserve	26,214	-	-	-27	242	-	26,429	-
Revaluation increases/ decreases (-) recognised in the surplus/ deficit on the Provision of services	-8,371	-	-	-	-71	-	-8,442	-
Derecognition and Disposals	-38,811	-	-5,500	-	-	-37,784	-82,095	-
Assets reclassified to (-)/ from Held for Sale	-4,805	-	-	-	-2,181	-	-6,986	-
Assets reclassified to (-)/ from PPE	22,813	-	-	-	-	-22,813	-	-
Assets reclassified to (-)/ from Investment Properties	-245	-	-	-	-	-	-245	-
Assets reclassified to (-)/ from Intangible Assets	-	-	-	-	-	-925	-925	-
Other movements in Cost or Valuation	-20	-	-	-	-	-	-20	-
At 31-Mar-18	1,009,014	17,840	920,982	659	3,455	42,861	1,994,811	117,777
Accumulated Depreciation and Impairment								
At 1-Apr-17	-37,352	-16,040	-125,072	-	-24	-9,054	-187,542	-49,797
Depreciation charge	-12,784	-1,367	-23,151	-	-29	-	-37,331	-4,511
Depreciation written out to the Revaluation Reserve	8,816	-	-	-	52	-	8,868	-
Depreciation written out to the surplus/ deficit on the provision of services	1,901	-	-	-	-	-	1,901	-
Impairment losses/ reversals (-) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/ reversals (-) recognised in the surplus/ deficit on the provision of services	-	-	-	-	-	-7,347	-7,347	-
Derecognition and Disposals	83	-	5,500	-	-	-	5,583	-
Other movements in Depreciation and Impairment	-	-	-	-	-	-	-	-
At 31-Mar-18	-39,336	-17,407	-142,723	-	-1	-16,401	-215,868	-54,308
Net Book Value								
At 31-Mar-18	969,678	433	778,259	659	3,454	26,460	1,778,943	63,469
At 31-Mar-17	974,887	1,800	733,148	686	5,441	63,192	1,779,154	67,980

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital commitments

At 31 March 2018, the Council has entered into a number of significant contracts for the construction or enhancement of Property, Plant and Equipment in 2017-18 and future years, budgeted to cost £930m. Commitments at 31 March 2017 were £94m. The year-on-year increase is driven by a contract for Highways Services that was awarded by the Council in 2017-18 in partnership with Suffolk County Council, Peterborough City Council and Hertfordshire County Council, for £900m over 15 years.

The major commitments are:

Expenditure approved and contracted		31-Mar-18 £000
Schools:		
Fulbourn Primary	Expansion of 4 classrooms	5,997
Meldreth Primary	Expansion of 1 form of entry	1,905
Westwood Primary	Expansion of 1 form of entry	2,817
Wyton Primary	New replacement 1 form entry school	7,814
Melbourn Primary	Expansion of 4 classrooms, hall and refurbishment	3,654
Morley Memorial Primary	Expansion of 2 classrooms and internal remodelling	3,457
Highways		
Highways Services	To cover structural work, surfacing, road works and capital schemes for highways	900,000
Real Time Passenger Information (RTPI)		4,500
Total		930,145

Capitalisation of Borrowing Costs

In accordance with the Council's accounting policy, the Council capitalised £1,925k of borrowing costs in year in relation to qualifying assets (£0k in 2016-17). This was calculated using the Council's average borrowing rate of between 3.2% and 3.6% for the 4 quarters of 2017-18. The accounting policy was adopted for the first time in 2017-18.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. In order to ensure that carrying values are kept in line with current values in the interim, the Council undertakes a material misstatement analysis annually and adjusts for any material variances if required. For 2017-18, 100% of the valuations were carried out externally by Royal Institution of Chartered Surveyors (RICS) registered valuers, Wilks Head & Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the RICS Valuation. The effective date of revaluation for the rolling programme and all Surplus assets is the 1 April 2017, however as part of the material misstatement exercise, some assets were revalued on a desktop basis as at 31 March 2018.

The significant assumptions applied in estimating current values are:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Building values based on building indices (Building Cost Information Service (BCIS)); and
- Land values based on existing use (for example, if offices are based on the land then the land is valued for office use, if buildings on the land have industrial use then the land is valued based on employment land value).

Valuation of long-term assets

	Carried at historical cost:	Valued at current value as at:					Total
	£000	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	£000
Land and Buildings		71,766	59,028	51,130	104,460	722,630	1,009,014
Vehicles, Plant, Furniture and Equipment		13,439	4,401	-	-	-	17,840
Infrastructure Assets	920,982						920,982
Community Assets		-	40	-	-	619	659
Surplus Assets		-	-	-	-	3,455	3,455
Assets Under Construction	42,861						42,861
		963,843	85,205	63,469	51,130	726,704	1,994,811
Assets Held for Sale		-	-	-	-	9,359	9,359
Investment Properties		-	-	-	-	9,101	9,101
Total held at cost or revaluation		963,843	85,205	63,469	51,130	745,164	2,013,271

15. HERITAGE ASSETS

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

	Archives and Museum Collections £000	Art Collection £000	Total Assets £000
Valuation or cost			
1 April 2016	20,567	150	20,717
Additions during 2016-17	-	-	-
Disposals during 2016-17	-	-12	-12
Revaluations during 2016-17	631	-	631
31 March 2017	21,198	138	21,336
1 April 2017	21,198	138	21,336
Additions during 2017-18	1	-	1
Disposals during 2017-18	-	-123	-123
31 March 2018	21,199	15	21,214

The Council's collections of archives, art works and other museum pieces are valued in the Balance Sheet at insurance valuation. The most recent valuation of archives was carried out by Bonhams on 11th

NOTES TO THE CORE FINANCIAL STATEMENTS

July 2008 and the most recent valuation of museum pieces was carried out by Bonhams on 27th June 2016. These valuations are repeated periodically. The Council has considered the collections during 2017-18 for possible impairments and does not believe it is economic to conduct revaluations on a more frequent basis.

16. LONG-TERM DEBTORS

This section gives details of amounts expected to be realised after one year.

31-Mar-17 £000		31-Mar-18 £000
9,572	Bodies external to central government (i.e. all other bodies)	39,677
40,209	Central government bodies	20,000
21,589	Long term finance lease receivable	21,589
71,370	Total	81,266

17. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial Instrument are carried on the Balance Sheet.

	Long-term		Current	
	31-Mar-17 £000	31-Mar-18 £000	31-Mar-17 £000	31-Mar-18 £000
Investments:				
Available-for-sale financial assets	400	400	-	-
Total investments	400	400	-	-
Cash and cash equivalents:				
Cash and cash equivalents	-	-	27,926	39,280
Total cash and cash equivalents	-	-	27,926	39,280
Loans and receivables:				
Loans and receivables (excluding prepayments)	71,370	81,266	82,052	66,525
Total receivables	71,370	81,266	82,052	66,525
Borrowings:				
Financial liabilities at amortised cost	-345,298	-351,214	-95,399	-148,522
Total borrowings	-345,298	-351,214	-95,399	-148,522
Other liabilities:				
Other liabilities	-123,323	-118,623	-83,408	-96,179
Total other liabilities	-123,323	-118,623	-83,408	-96,179

NOTES TO THE CORE FINANCIAL STATEMENTS

Income, Expense, Gains and Losses

	2016-17				2017-18			
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
Interest expense	26,090	-	-	26,090	27,675	-	-	27,675
Total expense in the Deficit on the Provision of Services	26,090	-	-	26,090	27,675	-	-	27,675
Interest income	-	-1,408	-	-1,408	-	-1,928	-	-1,928
Total income in the Deficit on the Provision of Services	-	-1,408	-	-1,408	-	-1,928	-	-1,928
Net gain (-) / loss for the year	26,090	-1,408	0	24,682	27,675	-1,928	-	25,747

Fair Values

There are material changes to the Fair Value notes, some based on the category of their initial valuation:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis. All other available for sale investments are carried at historic cost, as a fair value cannot be established or they are commercially sensitive. The total value of these available for sale investments at 31 March 2018 is £400k. These relate to Municipal Bonds Agency financial assets.

There were no transfers between input levels during the financial year.

There has been no change in the valuation technique used during the year for the financial instruments.

Except for the financial assets carried at fair value, all other financial assets and financial liabilities 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 Public Works Loan Board (PWLb) payable, early repayment rates from the PWLB have been applied to provide the fair value.

NOTES TO THE CORE FINANCIAL STATEMENTS

- For non-PWLB loans payable, PWLB prevailing market 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.

All other financial assets are classed as Loans and Receivables and held within notice accounts. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. Our accounting policy uses premature repayment borrowing rates to discount the future cash flows. The fair values are as follows:

Fair value hierarchy for financial liabilities

	31 March 2017		31 March 2018	
	Total Carrying amount	Fair value	Total Carrying amount	Fair value
	£000	£000	£000	£000
PWLB borrowing	-283,482	-402,822	-283,398	-391,618
Non-PWLB borrowing	-157,214	-215,186	-216,338	-275,380
Short term creditors/payables	-83,408	-83,408	-96,179	-96,179
Short term finance lease & PFI liability	-	-	-	-
Long term finance lease & PFI liability	-123,323	-123,323	-118,623	-118,623
Financial liabilities	-647,427	-824,739	-714,583	-881,800

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional loss (based on economic conditions at 31st March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £391.618m measures the economic effects of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount

NOTES TO THE CORE FINANCIAL STATEMENTS

of £283.398m would be valued at £350.016m. But if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption.

Fair value hierarchy for financial assets

	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and Cash Equivalents	£000 27,926	£000 27,926	£000 39,280	£000 39,280
Short term debtors (excluding prepayments)	82,052	82,052	66,525	66,525
Long term debtors	71,370	71,370	81,266	81,266
Loans and receivables	181,348	181,348	187,071	187,071
Municipal Bonds Agency	400	400	400	400
Available for Sale	400	400	400	400

The fair value of the assets is the same as the carrying amount because the Council's portfolio of loans and receivables amortised cost is a fair approximation of their value. The fair value of long term debtors is also taken to be the carrying amount.

18. INVESTMENT PROPERTIES

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 or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

2016-17 £000		2017-18 £000
2,658	Balance outstanding at start of year	7,222
4,122	Net gains/losses from fair value adjustments	1,634
442	Transfers to/from PPE	245
7,222	Balance outstanding at year-end	9,101

NOTES TO THE CORE FINANCIAL STATEMENTS

19. FAIR VALUE HIERARCHY

Details of the Council's Surplus Assets, Assets Held for Sale and Investment Properties and information about the fair value hierarchy as at 31 March 2018 and 2017 are as follows:

	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31 March 2018
	Level 2	Level 3	
<i>Fair value measurements for:</i>	£000	£000	£000
Surplus Assets	2,651	803	3,454
Assets Held for Sale	2,073	5,105	7,178
Investment Assets	9,029	72	9,101
	15,073	6,834	21,907

31 March 2017 Comparative Figures

	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31 March 2017
	Level 2	Level 3	
<i>Fair value measurements for:</i>	£000	£000	£000
Surplus Assets	3,435	2,006	5,441
Assets Held for Sale	3,064	467	3,531
Investment Assets	7,150	72	7,222
	13,648	2,545	16,194

Valuation Techniques

There has been no change in the valuation techniques used during the year for properties valued by fair value. The approaches are outlined below.

Significant Observable Inputs – Level 2

Land, Office, Community, Depot, Leisure and Retail assets have been based on the market approach using current market conditions and recent sales prices 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.

Significant Observable Inputs – Level 3

Ancient Monument, Travellers Site, Community Centres, Museum, Day Centres, Amenity Land, Farm Land and Educational assets have been based on a comparable approach either by estimated market rental values as the majority of these assets are let at sub-market or subsidised passing rents. We have had to draw on a number of our own assumptions and utilised third party resources in order to value these assets. These assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses

NOTES TO THE CORE FINANCIAL STATEMENTS

significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

Typical valuation inputs which have been analysed in arriving at the Fair Valuations include;

- Market Rental and Sale Values
- Yields
- Void and Letting Periods
- Size
- Configuration, proportions and layout,
- Location, visibility and access
- Condition
- Lease covenants
- Obsolescence

Highest and Best Use

In estimating the fair value of the Council's Surplus Assets, Assets Held for Sale and Investment Properties, the highest and best use is their current use for most of the assets. However, for 18 assets their highest and best use is actually for an alternative use (10 assets in 2016-17). In all cases, this alternative use is for residential development land – however the Council cannot realise that alternative value until planning permission is granted (although this is not guaranteed) and/or the asset is sold. As such, in the meantime these assets are either not in use (and therefore their current existing use is their previous use) or they have been put to an alternative use in the meantime whilst they await disposal or future development.

Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

<i>Fair value movements for assets categorised within level 3:</i>	31-Mar-17	31-Mar-18
	£000	£000
Opening balance	4,413	2,545
Transfers out of level 3	-3,535	-247
Reclasses between PPE, AHFS and Investment Properties	1,920	4,125
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-631	-66
Total gains [or losses] for the period included in Surplus or deficit on revaluation of long-term assets	385	495
Depreciation	-7	-12
Closing Balance	2,545	6,840

The loss arising from changes in the fair value of level 3 assets has been recognised in the Surplus or Deficit on the Provision of Services in the People and Communities and Commercial & Investment lines.

NOTES TO THE CORE FINANCIAL STATEMENTS

Transfers between Levels of the Fair Value Hierarchy

One asset has transferred from Level 3 to Level 2 during 2017/18. The property is now vacant and is effectively office space, for which there are observable inputs in the rental market.

20. SHORT TERM DEBTORS

An analysis between Central Government departments and other debtors is given below.

Restated¹			
31-Mar-17			31-Mar-18
£000			£000
25,589	Central government bodies		32,146
4,697	NHS bodies		17,106
72,624	Other local authorities, entities and individuals		50,408
102,910	Total Short Term Debtors		99,661

21. 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 within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents also include bank overdrafts where these arise as an integral part of the Council's cash management. The cash position is managed to ensure that a broadly neutral position is maintained on a daily basis (i.e. surplus cash balances are temporarily invested until next needed); overdrawn balances represent cash in transit at 31 March. The Council's cash management arrangements do not extend to bank balances held by schools in their own bank accounts.

The following table shows the balance of cash and cash equivalents at 31 March. The balance of Cash and Cash Equivalents is made up of the following elements:

31-Mar-17			
£000			31-Mar-18
			£000
-	Cash held by the Council		-
35,459	Cash equivalents		41,828
-7,533	Overdraft		-2,548
27,926	Total Cash and Cash Equivalents		39,280

NOTES TO THE CORE FINANCIAL STATEMENTS

22. ASSETS HELD FOR SALE

2016-17 £000		2017-18 £000
614	Balance outstanding at start of year	3,531
3,024	Assets newly classified as held for sale:	
	Property, Plant and Equipment	6,986
-	- Revaluation losses	-1,158
-	- Revaluation gains	-
	Assets declassified as held for sale:	
-107	Assets sold	-
3,531	Balance outstanding at year-end	9,359

23. SHORT TERM CREDITORS

An analysis between Central Government departments and other creditors is given below.

31-Mar-17 £000		31-Mar-18 £000
-27,987	Central government bodies	-21,814
-2,818	NHS bodies	-4,639
-96,627	Other local authorities, entities and individuals	-100,960
-127,432	Total Short Term Creditors	-127,414

24. PROVISIONS

The Council has made specific provisions to set aside sums to meet both current and long term liabilities that are likely or certain to be incurred but where the amount or timing of the payments are not known. These are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	¹ Balance at 1- Apr-17	Provisions arising & adjusted	Provisions utilised	Provisions reversed	Balance at 31-Mar-18
	£000	£000	£000	£000	£000
Current:					
Insurance	2,093	-	-	-	2,093
Other Corporate Provisions (<£1m)	1,920	474	-691	-81	1,622
Current Provisions	4,013	474	-691	-81	3,715
Long-term:					
Insurance	3,613	-	-	-	3,613
NNDR appeals provision	2,069	143	-	-	2,212
Long-term Provisions	5,682	143	-	-	5,825
Total	9,695	617	-691	-81	9,540

¹Prior period restatement: Upon preparation of the 2016-17 accounts it was ascertained that although an NNDR appeals provision was made in 2015-16 it was incorrectly recorded against short term creditors rather than provisions. This has been corrected accordingly.

Insurance

This provision is used to meet insurance claims funded by the Council. It is related to claims that are more likely than not to be payable. Included within this balance is an amount to cover potential liabilities following the announcement on the 13 November 2012 that the Municipal Mutual Insurance Limited (MMI) Scheme of Arrangement had been triggered.

MMI was formed as a limited company by guarantee in 1903 and by 1974 some 90% of local authorities were insured by the company. Due to dramatic increases in claims, coincidental with a fall in the property market and poor investment environment, along with its inability to raise capital because of its mutual status, MMI's net assets fell below the minimum regulatory solvency requirement and the company went into run-off in September 1992.

The amount paid under the insurance arrangements plus the amount outstanding under this arrangement is £15m. As a result of the imposition of the levy, now increased to 25%, the Council has made levy payments totalling £3.63m over a number of years and is also liable to contribute to each and every subsequent claim payment made by MMI on the Council's behalf, thereby creating an on-going financial obligation. MMI's financial position has continued to deteriorate; as a result an increase in the levy rate may be made in the future. The Council's current estimated levy liability for outstanding historic claims against MMI policies is £125k.

NOTES TO THE CORE FINANCIAL STATEMENTS

25. OTHER LONG TERM LIABILITIES

An analysis of other long term liabilities is shown below:

31-Mar-17 £000		31-Mar-18 £000
-509,867	Pensions Liabilities	-522,067
-131	Long term finance lease (non- PFI)	-130
-122,983	Long term finance lease (PFI)	-118,493
-209	Deferred credits	-
-633,190	Total	-640,690

26. USABLE RESERVES

Usable reserves are those reserves that contain resources that a Council can apply to the provision of services, either by incurring expenses or undertaking capital investment; whether or not there are particular restrictions on exactly what the resources can be applied to. Please refer to Notes 9 and 10 for details of the movements in usable reserves.

The Council's usable reserves are as follows:

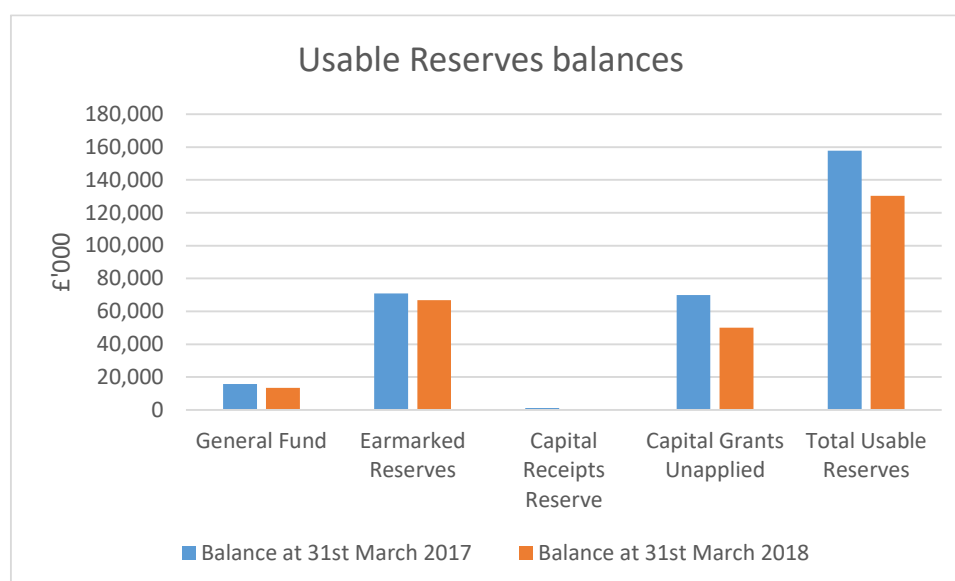
- **General Fund** – the main revenue fund of the Council. Council tax precepts and Government grants are paid into the fund, from which the cost of providing services is met. The General Fund cushions the impact of uneven cash flows and also acts as a contingency that can be used in year in the event of unexpected emergencies or unforeseen spending;
- **Earmarked Reserves** – these are resources set aside for a specific purpose. The Council's earmarked reserves include balances to cover future pressures, insurance claims and general contingencies held by schools within advisory limits. This includes a Transformation reserve which has been set up to finance projects that will reduce the Council's operating costs. Further analysis of earmarked reserves is shown within [note 10](#);
- **Usable Capital Receipts Reserve** – this reserve comprises all income from capital receipts that has been credited to the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal of long-term assets. Income is credited to the Capital Receipts Reserve, via a debit to the General Fund balance in the Movement in Reserves Statement. This reserve may only be used to fund capital expenditure or repay debt;
- **Capital Grants and Contributions Unapplied Reserve** – this reserve includes all capital grant income credited to the Comprehensive Income and Expenditure Statement, and subsequently reversed out of the General Fund Balance in the Movement in Reserves Statement. It is designed to show the position when a capital grant has been received, and conditions of its award met, but is yet to be

NOTES TO THE CORE FINANCIAL STATEMENTS

used to finance capital expenditure. Amounts in this reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The table and graph below show the year end usable reserve balances as at the end of 2016/17 and 2017/18.

	General Fund £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Balance at 31st March 2017	15,808	70,897	1,116	69,957	157,778
Balance at 31st March 2018	13,396	66,790	-	50,061	130,248



Movements in the Council's usable reserves are also detailed in the Movement in Reserves Statement (page 24).

NOTES TO THE CORE FINANCIAL STATEMENTS

27. UNUSABLE RESERVES

A summary of the Council's unusable reserves is as follows:

31-Mar-17 £000		31-Mar-18 £000
517,286	Revaluation Reserve	523,673
591,979	Capital Adjustment Account	571,995
-1,229	Financial Instruments Adjustment Account	-1,183
-509,868	Pensions Reserve	-522,068
4,077	Collection Fund Adjustment Account	355
-8,090	Accumulated Absences Account	-4,876
21,300	Deferred Capital Receipts Reserve	21,591
615,455	Total Unusable Reserves	589,488

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;
- 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.

2016-17 £000	Revaluation Reserve	2016-17 £000
481,822	Balance at 1st April	517,286
101,546	Upward revaluation of assets	56,457
-28,617	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-21,687
554,751	Surplus or deficit on revaluation of long-term assets not posted to the Surplus or Deficit on the Provision of Services	552,056
-6,007	Difference between fair value depreciation and historical cost depreciation	-6,091
-31,458	Accumulated gains on assets sold or scrapped	-22,292
-37,465	Amount written off to the Capital Adjustment Account	-28,383
517,286	Balance at 31st March	523,673

NOTES TO THE CORE FINANCIAL STATEMENTS

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 (such as buildings and roads) 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, via charges for depreciation, impairment losses and amortisations which are initially debited to the Comprehensive Income and Expenditure Statement. These are then transferred in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account. Reconciling postings from the Revaluation Reserve convert the fair value figures to a historical cost basis. The account is also credited with the amounts set aside by the Council to finance the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains and losses accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. [Note 9](#) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016-17 £000	Capital Adjustment Account	2017-18 £000
618,848	Balance at 1st April	591,979
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-47,404	Charges for depreciation and impairment of long-term assets	-44,678
-39,144	Revaluation gains reversing previous losses on Property, Plant and Equipment	-6,541
-	Amortisation of intangible assets	-288
-36,530	Revenue expenditure funded from capital under statute	-62,639
-89,052	Amounts of long-term assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	-76,635
37,465	Adjusting amounts written out of the Revaluation Reserve	28,383
444,183	Net written out amount of the cost of non-current assets consumed in the year	429,581
	Capital financing applied in the year:	
766	Use of the Capital Receipts Reserve to finance new capital expenditure	1,025
37,775	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	120,861
92,720	Application of grants to capital financing from the Capital Grants Unapplied Account	9,673
12,413	Statutory provision for the financing of capital investment charged against the General Fund	9,165
-	Capital expenditure charged against the General Fund	56
4,122	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,634
591,979	Balance at 31st March	571,995

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016-17 £000	Pensions Reserve	2017-18 £000
-479,483	Balance at 1 st April	-509,868
-8,478	Re-measurement of net pension liability	10,998
-55,857	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-57,058
33,905	Employer's pensions contributions and direct payments to pensioners payable in the year	33,860
-509,868	Balance at 31 st March	-522,068

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.

2016-17 £000	Accumulated Absences Account	2017-18 £000
-10,172	Balance at 1 st April	-8,090
10,172	Settlement/cancellation of accrual made at the end of the preceding year	8,090
-8,090	Amounts accrued at the end of the current year	-4,876
2,082	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration charged in the year in accordance with statutory requirements	3,214
-8,090	Balance at 31 st March	-4,876

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

2016-17 £000	Deferred Capital Receipts Reserve	2017-18 £000
21,300	Balance at 1 st April	21,300
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	291
21,300	Balance at 31 st March	21,591

28. TRADING OPERATIONS

The Council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or external customers.

Only the net surplus or deficit on external trading is shown separately in the Comprehensive Income and Expenditure Statement. Surpluses and deficits on internal trading are included within Net Cost of Services on the service line to which they relate. Details of those units with turnover greater than £5m or a deficit greater than £100,000 in 2017-18 are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

2016-17 £000		2017-18 £000
	Catering and Cleaning (CCS)	
-16,263	Turnover	-13,118
16,611	Expenditure	13,295
348	Surplus(-)/ Deficit	177
	Education Information and Communication Technology (ICT)	
-5,793	Turnover	-5,177
5,788	Expenditure	5,061
-5	Surplus(-)/ Deficit	-166
	Grafham Water Centre	
-1,427	Turnover	-1,431
1,512	Expenditure	1,548
86	Surplus(-)/ Deficit	117
	Other trading units	
-1,974	Turnover	-3,505
1,974	Expenditure	3,550
-	Surplus(-)/ Deficit	45
-24	Adjustment of Surplus (-)/ Deficit for other non-material external trading	52
405	Total Surplus (-)/ Deficit	158
-167	Removal of deficit on internal trading	-66
238	Net Surplus (-)/ Deficit on trading operations	92

Catering and Cleaning

The service provides catering, cleaning and caretaker services to school sites and where appropriate develops them in accordance with the National Curriculum and standards. The Council took the decision to withdraw trading operation on 23 February 2018. The service is currently in a winding down phase expected to last until the latter part of 2018

Education Information and Communication Technology (ICT)

Education ICT is the principal agency for delivering Cambridgeshire's ICT Strategy for schools and their communities.

Other trading units

These include Cambridgeshire Music.

29. POOLED BUDGETS

Better Care Fund

Cambridgeshire County Council hosts the local Better Care Fund. This is part of a national initiative to pool Health and Social Care funding to services to achieve better outcomes for the local community.

The fund is operated according to an agreement made under section 75 of the National Health Service Act 2006 between the County Council and the local NHS.

The partners planned expenditure together through the fund including:

NOTES TO THE CORE FINANCIAL STATEMENTS

- NHS contributions to older people's and adults' community health services, intermediate care and services for carers;
- Social Care spending on reablement, extra care and a range of other services;
- Additional funding from the NHS for County Council commissioned services in order to protect social care and respond to the Care Act;
- The Improved Better Care Fund grant paid to the County Council to provide investment to reduce delayed transfers of care to support pressures within adult social care;
- Disabled Facilities Grant for accommodation adaptations managed by the district Councils.

The financial results of the Better Care Fund for 2017-18 and 2016-17 are as follows:

2017-18		Pooled Budget Better Care Fund
		£000
Funding provided to the pooled budget:		
- the Council		-12,148
- NHS Cambridgeshire and Peterborough CCG		-36,294
Subtotal		-48,442
Expenditure met from the pooled budget:		
- the Council		27,278
- NHS Cambridgeshire and Peterborough CCG		21,165
Subtotal		48,442
Net surplus (-)/ deficit on the pooled budget during the year		-
Council share of the net surplus (-)/ deficit on the pooled budget		-
2016-17		Pooled Budget Better Care Fund
		£000
Funding provided to the pooled budget:		
- the Council		-6,772
- NHS Cambridgeshire and Peterborough CCG		-41,692
Subtotal		-48,464
Expenditure met from the pooled budget:		
- the Council		21,610
- NHS Cambridgeshire and Peterborough CCG		26,680
Subtotal		48,290
Net surplus (-)/ deficit on the pooled budget during the year		-174
Council share of the net surplus (-)/ deficit on the pooled budget		-87

In 2017/18 the partners reset their contributions and so different services were in the scope of the pool between years

In accordance with the section 75 agreement, NHS funded services which are commissioned directly by the Clinical Commissioning Group, do not require transactions to be via the County Council.

Consequently, the actual transfer of funding from the NHS to the County Council related to 2017/18 as a result of the fund is £15.129m (£14.65m in 2016/17).

NOTES TO THE CORE FINANCIAL STATEMENTS

Other pooled budgets

The Council also has pooled budget agreements with the following bodies:

- NHS Cambridgeshire and Peterborough CCG, for the provision of an Integrated Community Equipment Service (ICES) in Cambridgeshire, with the partner organisation contributing 48% of the budget;
- NHS Cambridgeshire and Peterborough CCG, for the provision of integrated health and social services for Learning Disability Partnership (LDP) clients in Cambridgeshire, with the partner organisation contributing 22% of the budget.

For both the ICES and LDP pools, the same proportions as those for budget contributions are used to meet any deficit or share any surplus arising at the end of each financial year, with the exception that it was agreed in advance that any overspend in the LDP pool during 2017-18 would be met fully by the County Council.

2017-18	Pooled Budget	
	Integrated Community Equipment Service	Learning Disability Partnership
	£000	£000
Funding provided to the pooled budget:		
- the Council	-2,244	-59,978
- NHS Cambridgeshire and Peterborough CCG	-2,105	-17,113
Subtotal	-4,349	-77,091
Expenditure met from the pooled budget:		
- the Council	2,268	63,383
- NHS Cambridgeshire and Peterborough CCG	2,128	17,113
Subtotal	4,396	80,496
Net surplus (-)/ deficit on the pooled budget during the year	47	3,405
Council share of the net surplus (-)/ deficit on the pooled budget	24	3,405

2016-17	Pooled Budget	
	Integrated Community Equipment Service	Learning Disability Partnership
	£000	£000
Funding provided to the pooled budget:		
- the Council	-2,201	-59,578
- NHS Cambridgeshire and Peterborough CCG	-2,065	-16,031
Subtotal	-4,266	-75,609
Expenditure met from the pooled budget:		
- the Council	2,238	61,732
- NHS Cambridgeshire and Peterborough CCG	2,099	16,611
Subtotal	4,337	78,343
Net surplus (-) on the pooled budget during the year	71	2,734
Council share of the net surplus (-) on the pooled budget	37	2,154

NOTES TO THE CORE FINANCIAL STATEMENTS

30. MEMBERS' ALLOWANCES

The allowances paid to members of the Council in 2017-18 were £863,280 (£846,604 in 2016-17) and expenses totalled £39,292 (£46,482 in 2016-17).

31. OFFICERS' REMUNERATION

Senior Employees

Schedule 1 of the Accounts and Audit Regulations 2015 involves a legal requirement to increase transparency and accountability in Local Government for reporting the remuneration of senior employees. The Council publishes detailed senior employee pay information covering, salary, bonuses, expenses allowances, compensation payments, pensions and any other benefits.

Senior employees whose salary is £50,000 or more, but less than £150,000, are required to be listed individually by way of job title. Employees whose salary is £150,000 or more must also be identified by name. In this context, a senior employee is identified as follows:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989;
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with others.

The Council's senior employee remuneration for 2017-18 (and 2016-17) is as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

		Salary, Fees, Expenses & Allowances	Employer Pension Contribution	Total Remuneration Including Employer Pension Contributions	Cost of posts to Cambridgeshire County Council	
		£	£	£	£	
Chief Executive (G Beasley)	1	2017-18	176,472	28,692	205,164	109,750
		2016-17	175,382	27,068	202,450	111,246
Executive Director: People and Communities	2	2017-18	144,713	24,759	169,472	94,705
		2016-17 (6m)	75,597	12,163	87,670	49,876
	3	2016-17 (6m)	72,143	12,041	84,184	84,184
Executive Director: Place and Economy		2017-18	132,240	23,142	155,382	155,382
		2016-17	127,755	21,463	149,218	149,218
Director: Corporate and Customer Services		2017-18	97,628	16,968	114,597	114,597
		2016-17	97,087	16,290	113,377	113,377
Deputy Chief Executive and Chief Finance Officer	4	2017-18	143,925	24,841	168,766	103,766
		2016-17	105,885	17,087	122,972	82,972
Director: Public Health	5	2017-18	101,946	13,952	115,898	62,966
		2016-17	105,667	13,851	119,518	67,186
Monitoring Officer	6	2017-18	110,821	24,029	134,850	79,889
		2016-17	107,638	24,281	131,918	78,152
	Total	2017-18	907,745	156,383	1,064,128	721,055
	Total	2016-17	867,153	144,244	1,011,307	736,211

Notes:

1. The Chief Executive post has been shared with Peterborough City Council. The Chief Executive's employment contract is with Peterborough City Council; the full remuneration costs for 2017-18 are shown above, along with the cost to Cambridgeshire County Council for its share.

2. The Executive Director: People and Communities (formerly titled Executive Director: Children, Families and Adults) is shared with Peterborough City Council, who are the employer, and for which CCC contributes to half the salary and on costs. The full remuneration costs for 2017-18 is shown above, along with the cost to Cambridgeshire County Council for its share (2016-17 6 months).

3. The previous Executive Director: Children, Families and Adults left the organisation on 9 October 2016.

4. The Deputy Chief Executive and Chief Finance Officer postholder undertakes non-executive directorships at The Cambridge and Counties Bank and This Land Limited, for which CCC received fixed contributions of £45k and £20k respectively (2016/17 £40k and £0). The full remuneration cost for 2017-18 is shown above, along with the cost to Cambridgeshire County Council for its share. The Chief Finance Officer became Deputy Chief Executive, for which an additional salary amount was payable during 2016-17.

5. The Director of Public Health works jointly with Peterborough City Council and PCC pays a fixed contribution to CCC for the salary. The full remuneration costs for 2017-18 is shown above, along with the cost to Cambridgeshire County Council for its share.

6. The Monitoring Officer responsibilities were fulfilled by the LGSS Director of Law and Governance. The employment contract is with LGSS Law Ltd, the cost of which is shown above, along with the cost to Cambridgeshire County Council for its share. The Monitoring Officer left LGSS Law Ltd on 11 May 2018, after the balance sheet date.

NOTES TO THE CORE FINANCIAL STATEMENTS

Employee remuneration above £50,000

In addition to those individuals shown in the senior officers table on the previous page, the number of Council staff (including teachers but excluding senior employees) with remuneration above £50,000 is as follows:

Remuneration Banding	2016-17	2017-18
£50,000 - £54,999	79	101
£55,000 - £59,999	68	56
£60,000 - £64,999	44	41
£65,000 - £69,999	34	37
£70,000 - £74,999	11	21
£75,000 - £79,999	3	3
£80,000 - £84,999	7	4
£85,000 - £89,999	3	5
£90,000 - £94,999	5	7
£95,000 - £99,999	3	4
£100,000 - £104,999	1	1
£105,000 - £109,999	1	1
£120,000 - £124,999	1	0
£130,000 - £134,999	0	1
£155,000 - £159,999	1	1
Total	261	286

Approximately two-thirds of the employees referred to in the above table are employed in Cambridgeshire schools.

The number of exit packages in terms of compulsory and other departures, as well as the total amount paid per banding, is set out in the table below:

	Number of compulsory redundancies		Number of other departures with exit package		Total number of exit packages		Total cost of exit packages £000	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
£0 - £20,000	117	49	40	50	157	99	707	605
£20,001 - £40,000	9	4	7	2	16	6	450	208
£40,001 - £60,000	2	2	5	9	7	11	339	555
£60,001 - £80,000	1	5	0	0	1	5	71	336
£80,001 - £100,000	1	1	0	2	1	3	83	286
£100,001 - £150,000	0	1	1	0	1	1	102	110
Total	130	62	53	63	183	125	1,752	2,100

NOTES TO THE CORE FINANCIAL STATEMENTS

32. TERMINATION BENEFITS

The Council terminated the contracts of a number of employees in 2017-18, incurring costs of £2.1m (£1.8m in 2016-17). See [note 31](#) for the number of exit packages and total cost per band that has been paid during the year.

33. EXTERNAL AUDIT COSTS

The Council has incurred the following fees relating to external audit and inspection for the following years of account:

2016-17 £000		2017-18 £000
94	Fees payable with regard to external audit services carried out by the appointed auditor	94
4	Fees payable in respect of other services provided by the appointed auditor	-
98	Total	94

34. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. The DSG (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards and Framework Act 1998.

Details of the deployment of DSG receivable for 2017-18 are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Central expenditure £000	Individual schools budget (ISB) £000	Total £000
Final DSG for 2017-18 before Academy recoupment			436,323
Academy figure recouped for 2017-18			203,188
Total DSG after Academy recoupment for 2017-18			233,135
Brought forward from 2016-17			-113
Carry forward to 2018-19 agreed in advance			-
Agreed initial budgeted distribution in 2017-18	54,939	178,083	233,022
In year adjustments	-	-1,147	-1,147
Final budget distribution for 2017-18	54,939	176,936	231,875
Less: Actual central expenditure	55,659	-	55,659
Less: Actual ISB deployed to schools	-	176,936	176,936
Plus: Local authority contribution for 2017-18	-	-	-
Carry-forward to 2018-19	-720	-	-720

NOTES TO THE CORE FINANCIAL STATEMENTS

35. GRANT INCOME

Material items of grant income supplied without conditions

The following is a list of all unrestricted revenue grants received during 2017-18 (and 2016-17) that are in excess of £1 million:

2016-17 £000		2017-18 £000
Credited to Taxation and Non Specific Grant Income and Expenditure		
60,643	Redistributed Business Rates (for 2016-17, includes Growth Pilot Scheme)	67,904
33,347	Revenue Support Grant	15,312
5,289	New Homes Bonus	4,273
4,480	Education Services Grant	1,296
3,205	Transition Support Grant	3,170
1,944	PFI Grant (re-financing of school)	-
1,423	Business Rates Compensation Grant	1,925
1,314	Independent Living Fund	1,270
-	Adult Social Care Support Grant	2,334
Credited to Services		
4,853	Building Schools for the Future PFI Grant	4,853
3,944	Street Lighting PFI Grant	2,960
2,691	Waste PFI Grant	1,959
1,664	Unaccompanied Asylum Seekers	1,754
124,797	Total	109,010

Grant income supplied with mandated requirements

The following is a list of all conditional revenue grants received in excess of £1 million during 2017-18 where the conditions have been met and so the grant has been recognised as income:

2016-17 £000		2017-18 £000
236,735	Dedicated Schools Grant	233,135
27,627	Public Health Grant	27,037
10,133	Pupil Premiums	9,366
1,514	Primary Schools Sports Funding	2,163
1,961	Adult Education Budget Block Grant	2,080
17,266	Other Grants	7,733
292,798	Total	281,514

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Grants receipts in advance

The Council has received a number of grants that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

31-Mar-17 £000		31-Mar-18 £000
	Current:	
	Contributions	
6,829	Section 106 contributions and Community Infrastructure levy	2,928
-	Other contributions	-
6,829	Current Capital Grants and Contributions Receipts in Advance	2,928
	Long Term:	
	Contributions	
23,023	Section 106 contributions	40,633
303	Other contributions	303
23,326	Long Term Capital Grants and Contributions Receipts in Advance	40,936
30,155	Total	43,864

36. RELATED PARTIES

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

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from government departments are set out in the subjective analysis in [note 3](#) analysing income and expenditure. Grant receipts outstanding at 31 March 2018 are shown in [note 35](#).

Member and Senior Officer Declarations

All Members and Senior Officers of the Council have been requested to detail any related party transactions in as far as they affect them. No significant interests have been disclosed.

NOTES TO THE CORE FINANCIAL STATEMENTS

A copy of the up-to-date statutory Register of Members Interests can be inspected at Shire Hall. A non-statutory copy has been placed on the Council's website.

Entities controlled or significantly influenced by the Council

Under partnership working arrangements, the Council has interests in the following bodies at 31 March 2018:

LGSS with Northamptonshire County Council and Milton Keynes Council				
Legal status of entity	Joint Committee			
Business of entity	Joint delivery of transactional and professional functions with a view to more economical, efficient and effective services			
Council's share of entity	2016-17	33%	2017-18	33%

LGSS was established in October 2010 and is delivered through a joint committee with its own management team. LGSS is jointly owned by Cambridgeshire, Northamptonshire County Councils and Milton Keynes Council and provides complete back office services and corporate support functions to other public service organisations including several District & Borough Councils (e.g. Northampton Borough and Norwich City Council), NHS Health Bodies, Adult Social Care (e.g. Olympus Care Services) and schools. (LGSS is not a joint arrangement, associate or subsidiary). The value of LGSS transactions is shown in the LGSS Operational line of the [Comprehensive Income and Expenditure Statement](#).

The Statement of Accounts for LGSS will be available on the LGSS website on completion of the external audit of those accounts.

LGSS Law Ltd

LGSS Law Ltd was spun off from the existing LGSS shared service venture, operating as a private limited company to take advantage of the Alternative Business Structure status that allowed non-lawyers to own legal practices. Ownership is split equally between Cambridgeshire County Council (CCC), Northamptonshire County Council (NCC) and Central Bedfordshire Council, with each Council owning 50 shares each.

During 2017-18 the Council made payments of £3.9m (2016-17 £2.1m) to LGSS Law Ltd as payment for legal services received in the year. At 31 March 2018 there was a debtor balance of £1.8m and a creditor balance of £0.9m with LGSS Law Ltd.

The Council has considered that group accounts will not be required for LGSS Law Ltd, as the net worth of LGSS Law Ltd and exposure to risk is not material. Users of the Council accounts will be able to see the complete activities of the Council and its exposure to risk without producing group accounts.

Pensions

Administrative and other recharges made by the Council to the Pension Fund totalled £2.4m (2016-17 £2.4m).

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council is also the single largest employer of members of the Pension Fund and contributed £30.3m to the Fund in 2017-18 (2016-17: £31.1m). At 31 March 2018 there was £2.0m (31 March 2017: £1.3m) due to the Fund by the Council.

Cambridge and Counties Bank

Cambridge and Counties Bank (CCB) specialises in providing lending and deposit products to UK-based SME's. Its key products include business deposits, loans secured on property, secured pension lending and asset finance. The Council's Section 151 Officer is Non-executive Director on the Board of CCB for which CCB pays £40k p.a. to the Council. There was no outstanding balance at year end.

The bank has a unique structure being jointly owned by the Cambridgeshire Local Government Pension Fund and Trinity Hall College (each owning a 50% share). The current market value of the Pension Fund's investment at 31 March 2018 is £65.9m.

This Land Companies

The Cambridgeshire Housing Investment Company (CHIC) was incorporated in June 2016, and subsequently renamed as This Land Limited on 14 February 2018 and is wholly owned by the Council. In the 2017/18 financial year, £546k of revenue costs had been incurred between This Land and CCC. At 31 March 2018 there was a debtor balance of £28.2m with This Land Limited, being loans by CCC to This Land. As the Council has control of the entity and there are material transactions with the company, This Land Limited is consolidated in the Group Accounts (page 93).

Opus LGSS People Solutions Ltd

Opus LGSS is a joint venture between Opus People Solutions and LGSS set up to meet the temporary and interim recruitment needs of Cambridgeshire County Council and Northamptonshire County Council.

During 2017-18 the Council made payments of £9.7m to Opus LGSS People Solutions for agency staff fees. At 31 March 2018 there was a debtor balance of £0.2m with Opus LGSS People Solutions.

37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The closing CFR at 31 March 2018 was £752m (£702m at 31 March 2017).

NOTES TO THE CORE FINANCIAL STATEMENTS

2016-17 £000		2017-18 £000
	Expenditure funded from capital:	
123,978	Property, Plant and Equipment	99,454
-	- Investment Properties	-
-	- Intangible Assets	925
36,530	Revenue Expenditure Funded from Capital under Statute	62,639
-	- Long-term Capital Debtors	28,170
	Sources of finance	
-766	Capital receipts	-1,025
-130,495	Government grants and other contributions	-130,533
-	- Direct Revenue Contributions	-56
	Sum set aside from revenue:	
-12,413	MRP/ loans fund principal	-9,165
16,834	Increase in Capital Financing Requirement	50,409
	Explanation of movements in year	
19,243	Increase in underlying need to borrow (unsupported by government financial assistance)	50,409
-2,409	Assets acquired under PFI contracts	-
16,834	Increase in Capital Financing Requirement	50,409

38. LEASES

Council as Lessee:

(i) Finance Leases

The Council has acquired land and buildings, including a school, libraries and depots, under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts (excluding Waste PFI leases which are disclosed separately in the Waste PFI note ([note 39](#))):

31-Mar-17 £000		31-Mar-18 £000
42,140	Other Land and Buildings	44,212

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

The minimum lease payments (MLP) and finance lease liabilities (FLL) are made up of the following amounts and will be payable over the following years:

NOTES TO THE CORE FINANCIAL STATEMENTS

MLP 31-Mar-17 £000	FLL 31-Mar-17 £000		MLP 31-Mar-18 £000	FLL 31-Mar-18 £000
11	5	Not later than 1 year	11	4
40	18	Later than 1 year and not later than 5 years	35	17
454	64	Later than 5 years	438	60
505	87	Total	484	81

(ii) Operating Leases

The Council has acquired a number of land and buildings, including libraries, caretaker's houses and day centres, under operating leases, with lives ranging from 1 to 999 years.

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

31-Mar-17 £000		31-Mar-18 £000
789	Not later than 1 year	714
1,947	Later than 1 year and not later than 5 years	1,474
4,031	Later than 5 years	3,826
6,767	Total	6,014

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

31-Mar-17 £000		31-Mar-18 £000
874	Minimum lease payments	746

Council as Lessor:

(i) Finance Leases

The Council has leased out playing fields, a landfill site, all Academy land and buildings and Castle Court (a lease from January 2016) under finance leases. For the non-Academy leases, the Council has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding.

In the case of Academies no debtor is recognised due to the long-term nature of the lease (125 years) and no finance income is earned by the Council (as they are leased at peppercorn rent).

NOTES TO THE CORE FINANCIAL STATEMENTS

The minimum lease payments (MLP) and gross investment in leases (GI) are made up of the following amounts and will be received over the following years:

MLP 31-Mar-17 £000	GI 31-Mar-17 £000		MLP 31-Mar-18 £000	GI 31-Mar-18 £000
1,400	1,212	Not later than 1 year	1,406	1,212
5,595	4,100	Later than 1 year and not later than 5 years	5,590	4,100
163,744	12,712	Later than 5 years	162,349	12,712
170,739	18,024	Total	169,345	18,024

(ii) Operating Leases

The Council leases out property under operating leases, primarily to schools and farms.

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

31-Mar-17 £000		31-Mar-18 £000
4,256	Not later than 1 year	4,168
13,394	Later than 1 year and not later than 5 years	15,940
18,978	Later than 5 years	22,057
36,628	Total	42,165

39. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Waste PFI

On 17 March 2008, the Council contracted with AmeyCespa WM (East) Limited (formerly Donarbon Waste Management Limited) to provide waste treatment and household waste facilities for the County. At the time the contract was signed, the total estimated contract payments were £730m over the 28-year contract period (termination due in 2036). An element of this payment relates to financing the construction of a Mechanical Biological Treatment (MBT) plant, with a total cost of £42m. PFI credits of £2.7m per year are received in relation to this contract.

The Council has rights under the contract to use specified assets and expect service provision for the length of the contract period, with the potential to negotiate an extension at the end of the period. Although the contractor took on the obligation to construct the MBT plant, the Council has constructed additional Recycling Centre facilities which have been added to the overall contract via formal change control. The Council will take ownership of the MBT building at the end of the contract, although the land on which the MBT is built will remain under the ownership of the contractor. Therefore, the future of the asset beyond the 28 contract years is determined in part by extension of the land lease agreement.

There is no option within the contract for renewal given the operation of the PFI mechanism, as the payment term for the asset will be complete and the payment mechanism will no longer apply. However, extension on revised terms, rather than full renewal, is accommodated in the contract after

NOTES TO THE CORE FINANCIAL STATEMENTS

the 28 year period, and multiple termination clauses exist within the contract for both parties for factors such as contractor default, Council default, contract breach and Force Majeure etc. Council or contractor initiated change processes are defined in the project agreement and the principle of 'no better, no worse', can be applied to any and all aspects of the contract, at any level of cost or time, given the defined dispute resolution procedures and the support of appointed independent adjudicators.

For 2017-18, the following figures have been recognised in the Council's financial statements:

2016-17 £000	Comprehensive Income and Expenditure Statement	2017-18 £000	
11,775	Fair Value of Services Provided	12,070	
5,023	Interest payable on the finance lease liability	4,887	
1,312	Repayment of Capital	-2,034	
2,288	Contingent Rents	2,530	
1,076	Lifecycle replacement costs	4,558	
2,002	Depreciation	2,266	
-2,691	PFI Credits	-2,691	
31-Mar-17 £000	Balance Sheet	31-Mar-18 £000	Movement £000
	Assets		
17,071	Land and buildings	16,173	-898
1,798	Plant and equipment	431	-1,367
	Liabilities		
2,034	Short term finance lease liability	-2,313	-4,347
-49,010	Long term finance lease liability	-46,698	2,312
	Reserves		
1,341	Revaluation Reserve	1,270	-71
-29,447	Capital Adjustment Account (Depreciation and Debt Provision)	-33,677	-4,230

Projected future payments over the remaining life of the Waste PFI contract are as follows:

	Cost of Services £000	Capital replacement £000	Liability repayment £000	Interest costs and contingent rents £000	Total £000
Within 1 year	12,372	-	2,313	7,877	22,562
Within 2 to 5 years	52,657	9,730	1,828	31,811	96,026
Within 6 to 10 years	73,574	6,059	12,273	42,264	134,170
Within 11 to 15 years	83,242	7,377	15,177	46,004	151,800
Within 16 to 20 years	55,108	1,000	17,419	26,968	100,495
Total	276,953	24,166	49,010	154,924	505,053

NOTES TO THE CORE FINANCIAL STATEMENTS

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

2016-17 £000		2017-18 £000
48,288	Balance outstanding at start of year	46,976
-1,312	Payments during the year	2,034
46,976	Balance outstanding at end of year	49,010

Street Lighting PFI

The Street Lighting contract was signed with Balfour Beatty plc. on 19 April 2011, with a service start date of 1 July 2011. This contract was to replace all of the existing lighting equipment, which was beyond its design life, over the initial five years. The contract requires the service provider to maintain the whole of the County Council's lighting street stock for the full 25 years, with the service fee being funded from the Council's revenue allocations. Although the contract requires maintenance of the entire street lighting stock and replacement of existing equipment beyond its useful life, ownership of the street lighting asset is retained by the County Council.

The contract contains a number of agreed performance standards. One of the standards sets targets regarding the expected number of light replacements over a set period. Should Balfour Beatty fail to achieve this target penalty deductions are made from subsequent payments. There are no reward payments for exceeding the agreed standard.

The contract does not specify any dates of renegotiation; however the pricing mechanism does include an inflationary adjustment in April of each year to reflect changes in Retail Price Index. Upon conclusion of the 25 year contract the contract will terminate and there are no contractual clauses relating to the renewal of this agreement.

On the 14 April 2011, the Department for Transport confirmed that Cambridgeshire had been successful in its bid for Street Lighting PFI Credits and has awarded £100.3 million over the 25 years of the contract.

For 2017-18, the following figures have been recognised in the Council's financial statements:

NOTES TO THE CORE FINANCIAL STATEMENTS

2016-17 £000	Comprehensive Income and Expenditure Statement	2017-18 £000	
2,394	Fair Value of Services Provided	2,627	
3,908	Interest payable on the finance lease liability	4,007	
1,282	Repayment of Capital	1,046	
89	Contingent Rents	85	
2,197	Depreciation	2,245	
-3,944	PFI Credits	-3,944	
31-Mar-17 £000	Balance Sheet	31-Mar-18 £000	Movement £000
	Assets		
49,110	Infrastructure	46,865	-2,245
	Liabilities		
-1,046	Short term finance lease liability	-1,422	-375
-44,515	Long term finance lease liability	-43,093	1,422
	Reserves		
3,549	Capital Adjustment Account (Depreciation and Debt Provision)	2,350	-1,199

Projected future payments over the remaining life of the Street Lighting PFI contract are as follows:

	Cost of Services £000	Capital replacement £000	Liability repayment £000	Interest costs and contingent rents £000	Total £000
Within 1 year	2,356	-	1,422	4,069	7,847
Within 2 to 5 years	9,733	1,081	6,468	14,959	32,241
Within 6 to 10 years	14,979	3,380	8,795	15,234	42,388
Within 11 to 15 years	16,592	3,876	13,735	10,785	44,988
Within 16 to 20 years	11,108	1,058	14,095	4,535	30,796
Total	54,768	9,395	44,515	49,582	158,260

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

2016-17 £000		2017-18 £000
44,435	Balance outstanding at start of year	45,561
-1,282	Payments during the year	-1,046
2,409	Capital expenditure incurred in the year	-
45,561	Balance outstanding at end of year	44,516

NOTES TO THE CORE FINANCIAL STATEMENTS

Building Schools for the Future (BSF)

On 18 May 2010, the Council entered a contract with Equitix Learning Community Partnerships to deliver school building and ICT projects. This programme includes a PFI element that comprises the following:

- Thomas Clarkson Community College – construction and ongoing Facilities Management services for the school, for which the total nominal unitary charge payments over the 25 year concession period from 4 January 2012 to 3 January 2037 will total £144.5m.

This is largely funded by PFI credits totalling £121.1m from the Department for Education, with the difference funded by school contributions and the Council's capital programme.

As Thomas Clarkson Community College converted to academy status on the 1 June 2012 (it was previously a foundation school), its assets are not recognised on the Council's Balance Sheet. However, the associated liabilities are recognised, as the contractor has met their contractual commitment and there is no recourse to the school for any future payments.

For 2017-18, the following figures have been recognised in the Council's financial statements:

2016-17 £000	Comprehensive Income and Expenditure Statement	2017-18 £000	
-613	Contribution from Schools	-622	
-4,853	PFI credits	-4,853	
802	Fair value of services provided	822	
3,280	Interest payable on the finance lease liability	3,214	
448	Contingent rents	454	
93	Lifecycle replacement costs	93	
619	Repayment of the finance lease liability	684	
31-Mar-17 £000	Balance Sheet	31-Mar-18 £000	Movement £000
	Liabilities		
-684	Short term finance lease liability	-757	-73
-29,599	Long term finance lease liability	-28,842	757
	Reserves		
-30,283	Capital Adjustment Account	-29,599	684

Projected future payments over the remaining life of the BSF contract are as follows:

	Cost of Services £000	Capital replacement £000	Liability repayment £000	Interest costs and contingent rents £000	Total £000
Within 1 year	842	93	757	3,634	5,326
Within 2 to 5 years	3,585	1,117	3,039	14,185	21,926
Within 6 to 10 years	5,009	1,387	6,011	16,518	28,925
Within 11 to 15 years	5,667	1,753	9,562	13,835	30,817
Within 16 to 20 years	5,066	1,922	10,231	7,372	24,591
Total	20,169	6,272	29,599	55,544	111,584

NOTES TO THE CORE FINANCIAL STATEMENTS

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

2016-17 £000		2017-18 £000
30,902	Balance outstanding at start of year	30,283
-619	Payments during the year	-684
30,283	Balance outstanding at end of year	29,599

40. IMPAIRMENT LOSSES

During 2017/18, the authority has recognised an impairment loss of £7,347k. This is in relation to capital expenditure on assets that will not ultimately enhance the asset's value. The recoverable amounts of the assets have been reduced to their value in use and the impairment loss has been charged to the Comprehensive Income and Expenditure Statement against the following services:

- People and Communities (£4,572k)
- Place and Economy (£1,167k)
- Corporate Services (£107k)
- LGSS Managed (£423k)
- Commercial and Investments (£1,079k)

41. RETIREMENT BENEFITS

DEFINED BENEFIT PENSION SCHEMES

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Cambridgeshire County Council – this is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets;

NOTES TO THE CORE FINANCIAL STATEMENTS

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Cambridgeshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions relating to post-employment benefits

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

As previously stated, the Local Government Pension Scheme (LGPS) is administered locally by Cambridgeshire County Council on behalf of all participating employers. It should be noted that the following figures only represent the Council's share as a participating employer. The figures for the entire LGPS administered by Cambridgeshire County Council are shown in the Pension Fund Accounts on pages 118-160.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Local Government Pension Scheme		
2016-17 £000		2017-18 £000
Comprehensive Income and Expenditure Statement:		
Cost of Services		
Service cost comprising:		
36,517	- current service cost	54,778
944	- past service costs	617
1,365	- gain (-)/ loss from settlements	-11,580
Financing and Investment Income and Expenditure:		
17,031	Net interest expense	13,243
55,857	Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	57,058
Other post-employment benefits charged to Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement:		
Re-measurement of the net defined benefit liability comprising:		
-180,398	- Return on plan assets (excluding the amount included in the net interest expense)	17,481
-12,030	- Actuarial gains (-)/ losses arising on changes in demographic assumptions	-
220,808	- Actuarial gains (-)/ losses arising on changes in financial assumptions	-29,178
-19,902	- Other	699
64,335	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	46,060
Movement in Reserves Statement:		
21,952	- reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	23,198
Actual amount charged against the General Fund Balance for pensions in the year:		
-30,697	Employers' contributions payable to scheme	-30,950
42,731	Retirement benefits payable to pensioners	40,264

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2016-17 £000		2017-18 £000
-1,522,315	Present value of the defined benefit obligation	-1,540,515
1,012,447	Fair value of plan assets	1,018,447
-509,868	Net liability arising from defined benefit obligation	-522,068

Reconciliation of the movements in the fair value of scheme (plan) assets

2016-17 £000		2017-18 £000
801,767	Opening fair value of scheme assets	1,012,447
28,136	Interest income	26,221
	Re-measurement gain/ loss (-):	
180,398	- Return on plan assets (excluding the amount included in the net interest expense)	-17,481
2,250	- Effect on settlements	-4,585
33,905	Contributions from employer	33,860
8,722	Contributions from employees into the scheme	8,249
-42,731	Benefits paid	-40,264
1,012,447	Closing fair value of scheme assets	1,018,447

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

2016-17 £000		2017-18 £000
1,281,205	Opening balance at 1 April	1,522,315
36,517	Current service cost	54,778
45,167	Interest cost	39,464
8,722	Contributions from scheme participants	8,249
	Re-measurement gains (-)/ losses:	
-12,030	- Actuarial gains (-) arising on changes in demographic assumptions	-
220,808	- Actuarial losses arising on changes in financial assumptions	-29,178
-19,902	- Other	699
944	Past service cost (including curtailments)	617
-42,731	Benefits paid	-40,264
3,615	Liabilities extinguished on settlements	-16,165
1,522,315	Closing balance at 31 March	1,540,515

NOTES TO THE CORE FINANCIAL STATEMENTS

Local Government Pension Scheme assets comprise:

2016-17 £000		2017-18 £000
28,924	Cash and cash equivalents	28,207
	Equity Instruments (by industry type):	
27,173	- Consumer	27,804
17,607	- Manufacturing	18,785
23,371	- Energy and Utilities	21,342
41,031	- Financial Institutions	46,453
10,748	- Health and Care	10,498
4,470	- Information Technology	5,419
-	- Other	-
124,400		130,302
88,076	Private Equity	89,647
27,283	Debt Securities (Bonds) - Government	25,188
	Investment Funds and Unit Trusts:	
569,677	- Equities	577,378
106,803	- Bonds	99,335
67,285	- Other	68,390
743,765		745,103
1,012,447	Total Assets	1,018,447

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis as an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, with estimates being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions including the discount rate used by the actuary have been:

NOTES TO THE CORE FINANCIAL STATEMENTS

2016-17 £000		2017-18 £000
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.4	- Men	22.4
24.4	- Women	24.4
	Longevity at 65 for future pensioners:	
24.0	- Men	24.0
26.3	- Women	26.3
2.4%	Rate of inflation	2.4%
2.7%	Rate of increase in salaries	2.7%
2.4%	Rate of increase in pensions	2.4%
2.6%	Rate for discounting scheme liabilities	2.7%

It should be noted that the rate of increase in salaries is the actuarial assumption of the rate of increase over a long term period, and not the actual value of annual pay increases received by staff.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting year and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. Longevity assumptions are made in respect of increases or decreases in life expectancy. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous year.

	Impact on the Defined Benefit Obligation in the Scheme £000
0.5% decrease in inflation/discount rate	152,155
0.5% increase in salary rate	17,412
0.5% increase in pension increase rate	133,184
A one year increase in life expectancy would increase the Employers defined benefit obligation by an estimated 3% - 5%	

The Council is anticipated to pay £29.5m employer contributions to the scheme in 2017-18. The weighted average duration of the defined benefit obligation for scheme members is 17.9 years.

NOTES TO THE CORE FINANCIAL STATEMENTS

PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers' pension schemes costs

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017-18, the Council paid £12.0m to Teachers' Pensions in respect of teachers' retirement benefits (2016-17 £12.8m). There were no contributions remaining payable at the year-end.

2016-17 £000		2017-18 £000
12,815	Employer's contributions	12,045
7,017	Employee contributions	6,614
19,832	Total paid to Department For Education	18,659

These amounts reflect contributions at the following rates:

2016-17 %		2017-18 %
16.48	Employer contribution	
	Employee contributions (pensionable pay based on salary bandings):	
7.4	£0 - £25,999	7.4
8.6	£26,000 - £26,259	7.4
8.6	£26,260 - £34,999	8.6
9.6	£35,000 - £35,349	8.6
9.6	£35,350 - £41,499	9.6
10.2	£41,500 - £41,914	9.6
10.2	£41,915 - £54,999	10.2
11.3	£55,000 - £55,549	10.2
11.3	£55,550 - £74,999	11.3
11.7	£75,000 - £75,749	11.3
11.7	£75,750+	11.7

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

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council is not liable to the scheme for any other entities obligations under the plan.

42. CONTINGENT LIABILITIES

The Council is involved in a number of legal claims and actions. Only some of these claims and actions are expected to lead to any liabilities or losses being incurred by the Council.

The likely liability and loss to the Council arising from legal claims and actions is determined on an actuarial basis, based on prior years' experience and details of known claims and actions. Appropriate amounts are set aside within the Insurance Reserve to cover the assessed likely cost of such matters over the year in which they are likely to be settled. Provision is made in the Balance Sheet for those claims and actions where the Council can reasonably foresee that liabilities or losses will be incurred.

The assessment of the likely liability and loss to the Council necessarily involves assumptions as to the likely outcome of claims and actions and the nature and extent of events which may have occurred at the Balance Sheet date, but of which the Council is not yet aware. Accordingly, the actual liabilities arising from events that have occurred prior to the Balance Sheet date could exceed or be less than the amount that has been set aside to cover such matters.

Guided Busway

The Council is currently in dispute with the contractor (BAM Nuttall) who delivered the Guided Busway capital scheme. The dispute relates to the rectification of defects that have already been identified within the infrastructure and the likelihood of further defects that could arise in the future. It is not practicable, at this point, to estimate with any degree of certainty the potential liability that may be incurred by the Council in the eventuality that legal action arises as a result of this dispute. The issues involved in this matter are complex and negotiations with the contractor are ongoing. As a result no amounts have been included in the accounts to cover the potential liabilities associated with this action.

43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- Refinancing 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.

Overall Procedures for Managing Risk

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

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

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 rating to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2017/18 was approved by Full Council in February 2017 and is available on the Council's website in Section 7 of the Council's 2017-22 Business Plan:

<https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/business-plan-2017-to-2018/>

Customers for the Council's goods and services are assessed for their ability to pay in accordance with parameters set by the Council. The Council does not allow credit for its trade receivables beyond the standard 30-day period and makes prudent financial provision for bad debts based on an assessment of each type of debt and the age of those debts.

The Council's maximum exposure to credit risk in relation to its investments of £26.424m 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 to recovery applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Outstanding invoices due but not impaired can be analysed by age as follows:

31-Mar-17 £000		31-Mar-18 £000
2,564	Less than three months	2,000
961	Three to six months	1,046
1,167	Six months to one year	1,700
2,285	More than one year	2,794
6,977	Total	7,540

During the reporting year the Council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well 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 Public Works Loan Board (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 anticipated annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing (£26.424m) are due to be paid in less than one year.

Refinancing and Maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows (note this reflects loan principal, not accrued interest), with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

NOTES TO THE CORE FINANCIAL STATEMENTS

31-Mar-17		Approved limit		31-Mar-18
£000	Debt maturity (lower/upper limits as % of debt)	%		£000
125,899	Less than 1 year	0 – 80	31%	152,443
11,443	1-2 years	0 – 50	1%	5,000
34,611	2-5 years	0 – 50	10%	49,611
67,961	5-10 years	0 – 50	14%	67,961
202,505	10 years and above	0 – 100	45%	222,845
442,419	Total			497,860

The maturity analysis above is based on the earliest date the loans can be repaid. For Lender Option Borrower Option (LOBO) loans this is considered to be the next options date.

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 Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential 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.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher or 1% lower with all other variables held constant, the financial effects over the life of the borrowing would be:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Interest rates 1% higher £000	Interest rates 1% lower £000
Increase (+)/ Decrease (-) in interest payable on variable rate borrowings	885	-885
Increase (-)/ Decrease (+) in interest receivable on variable rate investments	-403	403
Impact on Surplus or Deficit on the Provision of Services	482	-482
Decrease in fair value of fixed rate investment assets	-	-
Impact on other Comprehensive Income and Expenditure	482	-482
Decrease (-)/ Increase (+) in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	-75,839	75,839

Price risk – The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds but does hold an equity stake in the newly formed Municipal Bonds Agency PLC. This investment is a policy investment, rather than treasury management investments and is not material. The investment is disclosed in the Council's Balance Sheet at cost, as a long term investment and annual impairment review are carried out to determine if cost is still appropriate.

Foreign exchange risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

44. HERITAGE ASSETS: Further Information on the Council's collections.

Cambridgeshire Archives

The archives collections held by Cambridgeshire Archives include original historical documents relating to the area covered by the modern county of Cambridgeshire, and are made available to the public in two record offices: at Shire Hall and Huntingdon Library and Archives. The purpose of preserving these records is so that members of the public may consult them, which is allowed within supervised reading rooms. Further records are currently held at an out-store in Cottenham.

A catalogue of the collection is available publically through the internet and contains details of at least 366,000 items. There are many thousands of other historical documents which are still to be catalogued.

Governance

The authority to hold Public Records comes from The National Archives, which regularly inspects CALS to ensure that working practices and policies are maintained.

Major stakeholders, including the owners of some large collections, are represented on the County Advisory Group for Archives and Local Studies (CAGALS). This Group meets three times a year to oversee the management and direction of the archives service and to give its advice where necessary.

Storage and preservation

NOTES TO THE CORE FINANCIAL STATEMENTS

The archival collections are held in secure, environmentally-monitored strong rooms. The strong rooms in the basement of Shire Hall, Cambridge, do not meet the current standard and we were informed by The National Archives that they expected the Council to find alternative storage. As such the Council is working on a project to convert the former Strikes Bowling Alley building in Ely to an archives repository, with the intention of moving there the records held in Shire Hall basement and in Cottenham out-store. The move to Ely is likely to take place in 2018. The strong room at Huntingdon Library and Archives does meet the expected standard.

Cambridgeshire Archives has a conservation studio in which damaged or very fragile documents are repaired. The service also operates a digitisation and photography unit which takes high quality digital images of selected historical documents. The creation of these images reduces the need for the originals to be consulted, thereby assisting in their preservation.

Status of acquisitions

A detailed survey in 2016 identified that Cambridgeshire Archives holds about 460 cubic metres of archives in Shire Hall basement, 300 cubic metres in Cottenham out-store, and 190 cubic metres at Huntingdon.

The majority of acquisitions are made by long term or permanent deposit; the service does not own them, but there is an expectation that the owners will not request the documents' return. A minority of acquisitions are made by purchase or donation or by transfer from the Cambridgeshire County Council department which has created them. All assets are deemed to be kept permanently, irrespective of their status as deposit, transfer, donation or purchase.

No market valuations are made at time of accession, as the Council does not consider that reliable valuation information can be obtained given the lack of any comparable market values. The vast majority of other historical documents of comparable scope and importance are already held by other county record offices and therefore do not appear on the market. The only recent acquisitions for which the service has definite valuations are those which have been acquired through purchase, or occasionally through donation where a third party has paid for the cost of purchase. Reference is made to recent instances in [note 15](#).

Local Studies

The service also used to include the Local Studies collections in Libraries. Whereas the archives service preserves historical documents, the Local Studies team preserves printed and published material (some of which can still be very old). About 290 cubic metres of local studies materials are held at the Cambridgeshire Collection in Cambridge Central Library. These items are now managed as part of the Libraries service.

The Cromwell Museum

The Cromwell Museum contains over 600 objects including: arms and armour; books and documents; coins, medals and seals; costume; images; paintings; and prints. The majority of the collection is owned, and the Museum makes and receives loans from the descendants of Cromwell and other museums. During 2016-17 the management of the Museum moved across to an independent charitable trust; the assets are still owned by the Council. Further information can be found on the museum's website:

NOTES TO THE CORE FINANCIAL STATEMENTS

<http://www.cromwellmuseum.org/>

Archaeology and Monuments

The archaeology collection principally consists of around 11,000 boxes of material excavated in the county since 1992, with partial coverage from before that date. These archives are transferred to the council's ownership at time of deposition. The contents of these archives date from all periods of human activity from the late lower Palaeolithic to present day.

Notable highlights of the collection include assemblages from the earliest origins of the county's cities and towns, including Cambridge, Ely and Huntingdon. We also store c.1500 human skeletons (all older than 100 years) from several important cemetery excavations, along with associated grave goods in many instances.

As set out in the summary of significant accounting policies, the Council does not consider that reliable cost or valuation information can be obtained for these items held in its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. The value of these assets lies in their research and outreach use.

The majority of the archaeology collection has been relocated to Deepstore, Winsford, in Cheshire, as it is considered a more suitable and effective storage environment. Access is permitted to scholars and others for research purposes on request. Conservation, retention, preservation and use strategies of the archaeology collections are the responsibility of the Council's Historic Environment Team. This team also arranges safe storage of the collection, and maintains the publically accessible Cambridgeshire Historic Environment Record, which records 19,000 monuments, events and finds within the County.

The cost of preservation of archaeological assets held in store is £18,000 per annum.

The Council has identified certain significant scheduled monuments or listed buildings which are preserved to support future knowledge and culture. Where the primary use of the wider site is for farming no reclassification to heritage asset status has been made. This is the case in 5 instances: Devil's Ditch, Stonea Camp, Worts Meadow, Giant's Hill and Car Dyke.

Similarly, the Council has considered Cambridge Castle and Civil War Defences, which have historical value but are primarily held as a component of otherwise operational sites.

The Council considers that Gransden Mill and Ramsey Ice House meet the definition of a community asset, although they also contribute to the preservation of culture. However, Gransden Mill is currently actually held as a surplus asset as the Council is looking to transfer it to a local community group.

Art Collection

The art collection consists of 50 paintings, prints, drawings and photographs. The primary use of the collection is by Cambridgeshire schools to support and enrich the curriculum. Requests for works can be made by schools through the Council's website. The average insurance valuation per work is £300. Administration of the collection is undertaken by Council staff within Children's Services.

NOTES TO THE CORE FINANCIAL STATEMENTS

Civic regalia

There are chains of office attached to the positions of Chairman and Vice-Chairman of the Council, and their respective consorts, which are worn in the conduct of official duties. There are a number of other sundry items which decorate the ceremonial areas of Shire Hall. The financial value of these items is not known.

GROUP ACCOUNTS

FOREWORD

Cambridgeshire County Council established a wholly owned housing company in order to derive a financial return, which was incorporated on the 17th June 2016. The underlying objective of creating a commercial vehicle of this nature is to provide new revenue sources to support the delivery of front line services to Cambridgeshire residents. From the 15th February 2018, the company was renamed 'This Land'. Previously, the company was known as Cambridgeshire Housing & Investment Company but has now rebranded and changed its name at Companies House.

'This Land' now comprises a number of subsidiary entities in addition to the parent (the subsidiaries are This Land Development Limited, This Land Investment Limited, This Land Asset Management Limited and This Land Finance Limited). Cambridgeshire County Council is the sole and ultimate owner of all parts of the This Land group.

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and This Land Limited have been consolidated.

The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement

These statements are set out on the following pages, together with accompanying disclosure notes. Disclosure notes have only been restated in the group accounts section where they are materially different from those of the Council's single entity accounts.

GROUP ACCOUNTS

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The purpose of this statement is explained in the Core Statements section of the Council's single entity accounts.

Gross Expenditure £000	2016-17 Gross Income £000	Net Expenditure/ Income (-) £000		Gross Expenditure £000	2017-18 Gross Income £000	Net Expenditure/ Income (-) £000
115,824	-28,908	86,916	Place and Economy	139,410	-50,826	88,584
701,604	-374,072	327,532	People and Communities	701,966	-430,121	271,845
21,301	-21,027	274	Public Health	27,177	-26,505	672
12,147	-696	11,451	Corporate Services	24,502	-2,846	21,656
8,127	-1,630	6,497	LGSS Managed	5,051	-1,277	3,774
12,513	-7,390	5,123	Commercial & Investments	22,472	-17,975	4,497
22,049	-12,190	9,859	LGSS Operational	22,207	-10,741	11,466
893,565	-445,913	447,652	Cost Of Services	942,785	-540,291	402,494
88,668	-	88,668	Other operating expenditure	73,935	-	73,935
43,121	-6,749	36,372	Financing and investment income/ expenditure	40,918	-3,398	37,520
-	-439,770	-439,770	Taxation and Non-Specific Grant Income	-	-412,349	-412,349
		132,922	Surplus (-) or Deficit on Provision of Services			101,600
		-101,748	Surplus on revaluation of Property, Plant and Equipment			-57,316
		28,819	Impairment and revaluation losses charged to the Revaluation Reserve			21,755
		8,478	Re-measurement of net pension benefit/ liability			-10,998
		-64,451	Other Comprehensive Income and Expenditure			-46,559
		68,471	Total Comprehensive Income (-) and Expenditure			55,041

GROUP ACCOUNTS

GROUP BALANCE SHEET

The purpose of this statement is explained in the Core Statements section of the Council's single entity accounts.

31-Mar-17		31-Mar-18
£000		£000
1,779,154	Property, Plant and Equipment	1,778,954
20,705	Heritage Assets	21,214
7,222	Investment Property	9,101
258	Intangible Assets	895
400	Long Term Investments	400
71,370	Long Term Debtors	53,096
1,879,108	Long Term Assets	1,863,660
-	Investments	-
3,531	Assets Held for Sale	9,360
924	Inventories	860
102,910	Short Term Debtors	99,999
27,926	Cash and Cash Equivalents	66,138
135,291	Current Assets	176,357
-	Cash and Cash Equivalents	-
-95,399	Short Term Borrowing	-148,522
-127,432	Short Term Creditors	-127,997
-4,013	Provisions	-3,715
-6,829	Capital Grants and Contributions Receipts in Advance	-2,928
-233,673	Current Liabilities	-283,162
-5,682	Provisions	-5,824
-345,298	Long Term Borrowing	-351,214
-633,190	Other Long Term Liabilities	-640,690
-23,326	Capital Grants and Contributions Receipts in Advance	-40,936
-1,007,495	Long Term Liabilities	-1,038,664
773,232	Net Assets	718,191
157,778	Usable Reserves	128,703
615,454	Unusable Reserves	589,488
773,232	Total Reserves	718,191

GROUP ACCOUNTS

GROUP MOVEMENT IN RESERVES STATEMENT

The purpose of this statement is explained in the Core Statements section of the Council's single entity accounts.

	General Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Usable Reserves Total £000	Unusable Reserves Total £000	Reserves Total £000
Balance at 1-Apr-16	85,597	-	124,769	210,366	631,337	841,703
Movement in 2016-17:						
Total comprehensive income and expenditure	-132,922	-	-	-132,922	64,451	-68,471
Adjustments between accounting and funding basis under regulations	134,030	1,116	-54,812	80,334	-80,334	-
Increase/ decrease (-) in 2016-17	1,108	1,116	-54,812	-52,588	-15,883	-68,471
Balance at 31-Mar-17	86,705	1,116	69,957	157,778	615,454	773,232
Movement in 2017-18:						
Total comprehensive income and expenditure	-101,600	-	-	-101,600	46,559	-55,041
Adjustments between accounting and funding basis under regulations	93,537	-1,116	-19,896	72,525	-72,525	-
Increase/ decrease (-) in 2017-18	-8,063	-1,116	-19,896	-29,075	-25,966	-55,041
Balance at 31-Mar-18	78,642	-	50,061	128,703	589,488	718,191

GROUP ACCOUNTS

GROUP CASH FLOW STATEMENT

The purpose of this statement is explained in the Core Statements section of the Council's single entity accounts.

2016-17 £000		2017-18 £000
132,922	Net deficit on the provision of services	101,600
-38,350	Depreciation	-37,331
-48,199	Impairment and downward valuations	-14,679
-	Amortisation	-288
-25	Movement in impairment for bad debts	-569
-25,679	Increase (-)/ decrease in creditors	3,487
14,601	Increase/ decrease (-) in debtors	-20,102
-26	Increase/ decrease (-) in inventories	-64
-21,952	Movement in pension liability (difference between employer's contributions paid and IAS19 adjustments)	-23,198
-88,538	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	-77,149
6,488	Other non-cash items charged to the deficit on the provision of services	1,979
-201,679	Adjustments to the net deficit on the provision of services for non-cash movements:	-167,914
252	Proceeds from the sale of property, plant and equipment	514
69,480	Grants for financing capital expenditure	58,380
69,732	Adjustments for items included in the deficit on the provision of services that are investing and financing activities	58,894
974	Net cash flows from Operating Activities	-7,420
112,433	Purchase of property, plant and equipment	96,663
-	Purchase of short-term and long-term investments	-
-	Proceeds from short-term and long-term investments	-
-252	Proceeds from the sale of property, plant and equipment	-514
-61,221	Capital Grants Received	-72,089
50,961	Investing Activities	24,060
-173,476	Cash receipts of short and long-term borrowing	-303,598
2,166	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts (Principal)	-304
92,512	Repayments of short and long-term borrowing	244,559
-	Other payments for financing activities	4,491
-78,797	Financing Activities	-54,852
-26,862	Net increase (-)/ decrease in cash and cash equivalents	-38,212
1,064	Cash and cash equivalents at the beginning of the reporting year	27,926
27,926	Cash and cash equivalents at the end of the reporting year	66,138

GROUP ACCOUNTS

NOTES TO THE GROUP ACCOUNTS

1. GROUP BOUNDARY

This Land Limited was incorporated on 17th June 2016 (as Cambridgeshire Housing and Investment Company Limited). All the share capital of the company was acquired by Cambridgeshire County Council. Cambridgeshire County Council owns 100% of the share capital of This Land Limited. This Land Ltd is a subsidiary for accounting purposes, and have been consolidated into the Council's group accounts. None of the other Trading Companies in which the Council has an interest are considered material enough to merit consolidation into the Council's Group Accounts. Details of these can be seen within the Related Parties note in the Council's single entity accounts (Note 36).

2. BASIS OF CONSOLIDATION

The financial statements of This Land Limited have been consolidated with those of the Council on a line by line basis; which has eliminated in full balances, transactions, income and expenses between the Council and the subsidiary. The financial year for This Land Limited ends on 31st December; the following documents have been used in the consolidation for the period 1st April 2017 to 31st March 2018:

- This Land Limited Financial Statements for the period ended 30th June 2017 (apportioned for three months);
- This Land Limited Financial Statements for the period ended 31st December 2017;
- This Land Limited management accounts for the period 1st January 2018 to 31st March 2018.

3. BUSINESS ACTIVITIES OF THE SUBSIDIARIES

This Land Limited (and its subsidiaries) have been established as a housing company that will commercially deliver residential housing on sites currently used for other purposes.

Given the lead time involved in bringing residential housing to the market, it is expected the nature of the group accounts will change over the coming years.

4. ACCOUNTING POLICIES

In preparing the Group Accounts the Council has aligned the accounting policies of the subsidiaries with those of the Council. The accounting policies of This Land Limited are the same as those of Cambridgeshire County Council (refer to Appendix 1), with the following addition for This Land Limited:

- **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits which the underlying timing differences can be deducted.

APPENDIX 1- ACCOUNTING POLICIES

ACCOUNTING POLICIES

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the [Code of Practice on Local Authority Accounting in the United Kingdom 2016-17](#), supported by [International Financial Reporting Standards \(IFRS\)](#). The accounts are prepared on a historical cost basis, i.e. expenditure is included on the basis of the price actually paid rather than any additional allowance being made for changes in the purchasing power of money, modified by the revaluation of certain categories of property, plant and equipment. The accounting policies have been consistently applied where appropriate.

BASIS OF ACCOUNTING

The following accounting concepts have been applied in preparing the accounts:

- **Relevance:** the information in the accounts is useful in assessing the Council's performance;
- **Reliability:** the information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors;
- **Comparability:** a consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has a material effect on the information, this has been disclosed. Application of the terms of the Code ensure comparability;
- **Understandability:** the Council endeavours to ensure that an interested reader can understand the accounts;
- **Materiality:** in using its professional judgment, the Council considers the size and nature of any transaction, or set of transactions. An item is considered material where its omission or misstatement would reasonably change the substance of the information presented in the accounts;
- **Going Concern:** the accounts have been prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future;
- **Primacy of Legislative Requirements:** the Council operates through the power of statute. Where legislation prescribes the treatment of transactions, then the accounting concepts outlined above may not be applied.

THE DE MINIMIS THRESHOLD

The de minimis threshold level has been set at £4,000 (this threshold has been used as a guideline across the Council, where it is sensible to refer to a de minimis in making accrual adjustments).

APPENDIX 1- ACCOUNTING POLICIES

ACCRUALS OF INCOME AND EXPENDITURE

Revenue accounts are maintained on an accruals basis. Expenditure is charged to the revenue accounts in the year in which goods and services are received and, similarly, income is credited in the year to which it relates, regardless of the timing of cash payments or receipts. For example, accrued income is recognised where an amount is earned in the current accounting year, but is expected to be received in a subsequent year. Deferred income reflects any income which has been received in advance of it being earned, and is recognised when it can be matched with the year in which it is earned.

Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

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 revenue 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. Where debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

PROPERTY, PLANT AND EQUIPMENT

The Property, Plant and Equipment category refers to assets that are expected to be used for more than one year. All expenditure on the acquisition, creation, or enhancement of property, plant and equipment has been capitalised on an accruals basis, subject to the following accounting policies.

Recognition

New acquisitions are brought into the accounts at cost within the appropriate Property, Plant and Equipment balance and are then revalued during the following year. Expenditure on construction of new assets is also brought into the accounts at cost and included either within the Infrastructure category or Assets Under Construction. For capital schemes held within Assets Under Construction, once all the assets which are created or enhanced by a capital scheme become operational, the value is transferred to the appropriate category of Property, Plant and Equipment. Assets costing less than £10,000, or revalued to less than £10,000 and all non-PFI vehicles and equipment are charged to the Comprehensive Income and Expenditure Statement.

The assets of local authority maintained schools are recognised in the Council's financial statements, subject to the usual accounting requirements for long-term assets. Therefore, if there are any specific arrangements in place whereby the control of the asset does not lie with the local authority, then the asset will not be recognised. The Council reviews all schools on an individual basis to determine where the control lies; at present, all community schools are held within the Council's Balance Sheet, whereas all academy schools are not. The Council transfers academy school assets on a 125-year lease, and as such they are subject to lessor finance lease policies (see leases policy, pages 110-111). Long-term assets of foundation schools governed by a separate trust with no local authority control present are not consolidated, along with the long-term assets of most voluntary aided and voluntary controlled schools.

APPENDIX 1- ACCOUNTING POLICIES

This is due to the legislation contained within the School Standards and Framework Act 1998, as amended, that stipulates all non-playing field land shall be transferred by the local authority to the relevant diocese or trust. Only where there are specific lease, or other arrangements in place, does the Council hold the assets of these schools on the Council's Balance Sheet.

Infrastructure Asset Additions and De-recognitions

Capital expenditure incurred on the enhancement of existing infrastructure assets will be added to the value of the asset included within the asset register. Consequently, a de-recognition of the existing asset will occur, writing out the value attributable to the asset that has been enhanced/replaced (including any associated depreciation).

Measurement

The Council carries out a rolling revaluation programme that ensures that all Property, Plant and Equipment required to be measured at current value is reviewed at least every five years. In order to ensure that values are kept in line with current values, in the interim the Council undertakes a material misstatement analysis annually and adjusts for any material variances if required. This analysis involves a) a desktop valuation of assets over a certain value, b) a market review undertaken by the Council's external valuers, and if necessary, c) an indexation analysis that includes an assessment of when a depreciated replacement cost asset was last revalued and application of an index to it based on Building Cost Information Service (BCIS) forecasts and land value estimations for every year since the asset was last revalued. The threshold value used to determine which assets are subject to a desktop valuation is reviewed each year – the aim is to set this threshold at such a level that it reduces any variances in value below a material level in order that a further indexation analysis is not required.

Assets contained within Property, Plant and Equipment required to be measured at fair value are revalued every year. The effective date of revaluation for the rolling programme and all Surplus Assets is 1 April at the commencement of the year in question, however as part of the material misstatement exercise, some assets are revalued again as at 31 March of the year in question and are potentially adjusted for indexation between 1 April and 31 March.

Infrastructure has been included in the Balance Sheet at depreciated historical cost, whilst Community Assets, and Assets Under Construction have been included at historical cost. The cost therefore includes the original purchase price of the asset and the costs attributable to bringing the asset to a working condition for its intended use.

The value of Infrastructure assets within the accounts includes a lump sum removal in 1998 when Peterborough City Council was formed, becoming independent of Cambridgeshire County Council. This lump sum is not broken down on an asset-by-asset basis. Other additions and enhancements are recorded at cost on a project-by-project basis rather than by asset, therefore additions and enhancements may relate to a number of individual Infrastructure assets.

Land and Building assets and Vehicles, Plant, Furniture and Equipment assets have been included in the Balance Sheet at their current value. Operational Property, Plant and Equipment is valued using Existing

APPENDIX 1- ACCOUNTING POLICIES

Use Value whereas specialised assets are valued using Depreciated Replacement Cost. The valuation of the farms estate, included within the Land and Building figures, is based on a discounted cash flow of future rental income and capital receipts, which is a type of Existing Use Valuation. Assets identified as surplus to requirements are measured at fair value based on highest and best use. Assets that are subject to part disposals are revalued in the year of disposal.

Assets held at current or fair value are split into land and building components, with the building element further subdivided in order to be depreciated over appropriate estimated useful lives. The four building components used are Roof, Structure, Machinery and Equipment, and Externals.

Capitalisation of Borrowing Costs

Borrowing costs that are:

- Directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset;
- When it is probable that they will result in future economic benefits or service potential to the Council; and
- The costs can be measured reliably;

shall be capitalised and form part of the cost of that non-current asset.

Where the Council borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Council shall apply a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs that are outstanding during the period.

The amount of borrowing costs capitalised shall not exceed the amount of borrowing costs incurred during the period.

The commencement of capitalisation begins when all of the following conditions are met:

- Expenditure in respect of the asset is incurred;
- Finance costs in respect of the asset are incurred; and
- Activities that are necessary to develop an asset are in progress.

Capitalisation ceases when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

Capitalisation should be suspended during periods in which active development is interrupted.

Depreciation

Land is held at current value and not depreciated. Property, Plant and Equipment assets other than land, are depreciated over their useful economic lives using the straight-line method. An exception is made regarding depreciation for assets without a determinable finite useful life (i.e. Community Assets) and

APPENDIX 1- ACCOUNTING POLICIES

assets that are not yet available for use (i.e. Assets Under Construction). Depreciation is applied using the following month convention (except for Infrastructure), where depreciation is not charged in the month of acquisition but a full month's depreciation is charged in the month of disposal.

Useful economic lives for depreciating Property, Plant and Equipment assets are as follows:

- Buildings (including Surplus Assets) – 5 to 50 years, in line with the Council's componentisation policy which specifies different useful economic lives according to the type and condition of the component;
- PFI schemes only: Vehicles, Plant, Furniture and Equipment– 3 to 26 years; (Vehicles, Plant, Furniture and Equipment outside of PFI schemes are not capitalised)
- Infrastructure – 40 years.

Upon a review of asset lives, depreciation is calculated over the revised remaining useful life of the asset.

FAIR VALUE MEASUREMENT

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The 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.

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

APPENDIX 1- ACCOUNTING POLICIES

- 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.

CAPITAL ACCOUNTING

Two reserve accounts are required in the Council's Balance Sheet for capital accounting adjustments:

- **The Revaluation Reserve** - this contains the balance of the surpluses or deficits arising on the periodic revaluation of property, plant and equipment. The Revaluation Reserve contains only gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account;
- **The Capital Adjustment Account** - this absorbs the timing differences arising from the different arrangements for accounting for the consumption of property, plant and equipment 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, via charges for depreciation, impairment losses and amortisations which are initially debited to the Comprehensive Income and Expenditure Statement. These are then transferred in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account. Reconciling postings from the Revaluation Reserve convert the fair value figures to a historical cost basis. The account is also credited with the amounts set aside by the Council to finance the costs of acquisition, construction and enhancement.

The above accounts are not available to fund future expenditure.

CAPITAL RECEIPTS

When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement. Any receipts from disposals, net of costs of disposal, are also credited to the Comprehensive Income and Expenditure Statement. Costs associated with disposal can be funded from the associated capital receipt as long as they are less than 4% of the value of the proceeds. Any disposal costs over this level must therefore be funded by revenue.

The gain, or loss, on the disposal of a long-term asset is the amount by which the disposal proceeds, net of disposals costs, are more (gain) or less (loss) than the balance sheet value of the long-term asset. Any previous revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account on disposal.

Income that is not reserved for the repayment of external loans, and has not been applied in financing capital expenditure, is shown on the Balance Sheet within the Usable Capital Receipts Reserve.

APPENDIX 1- ACCOUNTING POLICIES

CHARGES TO REVENUE FOR LONG-TERM ASSETS

Revenue accounts are debited with the following amounts to record the real cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service (as per the Depreciation policy on page 102);
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible long-term assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses, or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (see the Debt Redemption policy on page 115). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by the contribution in the General Fund Balance by an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Some expenditure is incurred during the year that may be treated as capital under statutory provisions but does not result in the creation of a long-term asset (e.g. expenditure on academy schools). Instead of capitalising this expenditure, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources, those resources are also credited to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of expenditure by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

HERITAGE ASSETS

Heritage Assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets. The Council holds these assets principally for future generations because of their contribution to knowledge, the environment and the culture of the County.

The code requires authorities to recognise heritage assets where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining this information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Council's Balance Sheet but commentary is included in the notes to the financial statements. Where valuations are made, an appropriate method is adopted; this may include, for example, insurance valuations of museum collections.

The Council's different classes of Heritage Assets are treated as follows:

APPENDIX 1- ACCOUNTING POLICIES

- Archives collections – recognised in the Balance Sheet at insurance valuation where available;
- Museum collections – recognised in the Balance Sheet at insurance valuation;
- Art works – recognised in the Balance Sheet at insurance valuation;
- Archaeological artefacts and ecofacts – not recognised on balance sheet due to a lack of reliable valuation information;
- Civic regalia – not recognised on balance sheet due to being considered as immaterial and a lack of reliable valuation information.

The Council reviews the carrying amounts of heritage assets carried at valuation on a yearly basis to ensure they remain current. Depreciation is not charged on heritage assets which have indefinite lives, but impairment reviews are carried out where there is physical deterioration or if new doubts as to the authenticity of the Heritage Asset exist.

INVESTMENT PROPERTIES

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. 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. 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.

FINANCIAL LIABILITIES

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument (e.g. Public Works Loan Board borrowing). Financial liabilities are initially measured at fair value and subsequently carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus any accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However where repurchase has taken place, as part of a restructuring of the loan portfolio that involves the

APPENDIX 1- ACCOUNTING POLICIES

modification or exchange of existing financial instruments, the premium or discount is respectively deducted from, or added to, the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain, or loss, over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to, or from, the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

FINANCIAL ASSETS

Financial assets are classified as loans or receivables that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Loans and receivables are initially measured at fair value and subsequently carried 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. The interest credited to the Comprehensive Income and Expenditure Statement for the loans is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the 'Financing and investment income and expenditure' line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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.

GOVERNMENT GRANTS

Government grants, and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions. There are two types of stipulations; conditions and restrictions:

APPENDIX 1- ACCOUNTING POLICIES

- Conditions are stipulations that specify that the future economic benefits or service potential embodied in transferred assets are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor;
- Restrictions are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

The key difference between a condition and a restriction is that a condition requires the grant funder or donor to have a right to the return of their monies or the donated asset (or similar equivalent compensation). However, if recovery of the grant/ donation is only possible indirectly by, for instance, legal action for breach of contract or withholding payment of other monies due separately to the Council without a right to have done so, then this will amount to a restriction rather than a condition.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as payables. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Statement and 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 and Contributions Unapplied Reserve. Where it has been applied it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

COUNCIL TAX AND NON-DOMESTIC RATES

In England, billing authorities act as agents on behalf of major preceptors in collecting council tax and non-domestic rates (NDR). This is because the legislative framework for the Collection Fund states that billing authorities and major preceptors share proportionately:

- the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted;
- the effect of any bad debts written off;
- the movement in the impairment provision.

The Council, as a major preceptor, is therefore required to include the appropriate share of the Council Tax and NDR receivables in its Balance Sheet as well as an appropriate share of the Collection Fund surplus / deficit for the year within its Comprehensive Income and Expenditure Statement.

LONG-TERM CONTRACTS

Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

APPENDIX 1- ACCOUNTING POLICIES

PRIVATE FINANCE INITIATIVE (PFI) SCHEMES

PFI contracts are agreements to receive services, where the responsibility for making available the long-term assets needed to support the delivery of those services passes to the PFI contractor in return for an annual fee. The Code of Practice requires that PFI contracts are accounted for in a manner consistent with the adoption of *International Financial Reporting Interpretations Committee (IFRIC) 12: Service Concession Arrangements* as contained in the Government's *Financial Reporting Manual (FreM)*, and means that assets and liabilities are recognised on the Council's Balance Sheet where the Council substantially controls the use of the assets involved and any associated residual interest. As the Council is deemed to control the services that are provided under its PFI schemes and, as the ownership of the property, plant, and equipment will pass to the Council at the end of the contract, the Council carries the long-term assets used under the contracts on the Balance Sheet in line with the requirements of *IFRIC 12*.

The original recognition of these assets is at historical cost the year after they are made available for use, and when revalued, at current value in existing use. This is matched by the recognition of an equivalent liability for amounts due to the scheme operator to pay for the capital investment. PFI assets are revalued and depreciated in the same way as any other property, plant, and equipment owned by the Council.

Annual unitary charges that are paid by the Council to PFI operators can be analysed into five elements:

- Current value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability calculated by applying the implicit interest rate in the lease to the opening lease liability for the year. This is debited to the 'Financing and investment income and expenditure' line;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the 'Financing and investment income and expenditure' line in the Comprehensive Income and Expenditure Statement;
- Payment towards the liability – applied to write down the Balance Sheet liability towards the PFI operator;
- Life cycle replacement costs – this refers to the replacement of individual components within the PFI asset portfolio to ensure that the condition of the whole property meets the agreed standard throughout the life of the PFI contract. A proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Prudent provision for PFI schemes is made within the annual unitary charge, based on the part of the unitary payment that goes to write down the matching liability for assets recognised on the Balance Sheet.

Central government support for PFI schemes is in the form of PFI credits. These are a measure of the private sector investment which is supported by central government departments and are a promise that PFI revenue grant can be claimed once the project is operational. The level of PFI credits determines the amount of grant that can be claimed by the Council, which is calculated as an annuity

APPENDIX 1- ACCOUNTING POLICIES

based on the level of PFI credits and the contract length. (Further detail on the PFI contracts is given in the PFI note, [note 39](#).)

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.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

■ Council as Lessee

Finance leases

Property, plant and equipment assets held under a finance lease are recognised on the Balance Sheet at the commencement of the lease at its fair value 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 and initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability and contingent rents are charged as expenses in the years in which they are incurred. Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment and a finance charge.

As with other long-term assets, the Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue towards the deemed capital investment in accordance with statutory requirements (see the Debt Redemption policy on page 115). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by the contribution in the General Fund Balance by an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (i.e. if there is a rent-free period at the commencement of the lease).

■ Council as Lessor

Finance leases

Where the Council grants a finance lease on 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 Assets Held for

APPENDIX 1- ACCOUNTING POLICIES

Sale) 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 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.

However, in the case of academy schools the Council does not recognise a long term debtor on the Balance Sheet. This is because the assets are transferred as 125 year leases which is deemed too long to be certain of any receivable value at the end of the lease period.

Any 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, it 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.

The written off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are 'adjusting' and 'non-adjusting' events, both favourable and unfavourable, that occur between the end of the reporting year and the date when the Statement of Accounts is authorised for issue.

APPENDIX 1- ACCOUNTING POLICIES

An 'adjusting' event is where evidence of the conditions of that event existed at the Balance Sheet date. A 'non-adjusting' event is indicative of conditions that arose after the Balance Sheet date, but prior to the issue of these accounts.

Material events that relate to conditions that did not exist at the Balance Sheet date are disclosed by way of a note to the financial statements.

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 3 months or less from the date of acquisition, and that are readily convertible to known amounts of cash with insignificant risk of change in value. 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.

BENEFITS PAYABLE DURING EMPLOYMENT

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses 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 (or any form of leave, e.g. time off in lieu) 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 wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

TERMINATION BENEFITS

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

APPENDIX 1- ACCOUNTING POLICIES

POST EMPLOYMENT BENEFITS

The majority of employees of the Council are members of two separate pension schemes:

- **The Teachers' Pension Scheme**, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE);
- **The Local Government Pension Scheme**, administered by Cambridgeshire County Council.

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

The Teachers' Pension Scheme

The arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme as follows:

- The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit 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 projected earnings for current employees;
- Liabilities are discounted to their value at current prices using a discount rate.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - ▶ quoted securities – market value
 - ▶ unquoted securities – professional estimate
 - ▶ unitised securities – average of the bid and offer rates
 - ▶ property – market value;
- The change in the net pension liability is analysed into service cost and re-measurement components.

Service Cost elements comprise:

- ▶ **Current service cost**: the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

APPENDIX 1- ACCOUNTING POLICIES

- ▶ **Past service cost:** the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement;
- ▶ **Net interest on the net defined benefit liability** (i.e. the net interest expense for the Council) – the change during the year in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the year, taking into account any changes in the net defined benefit liability during the year as a result of contribution and benefit payments.

Re-measurements comprise:

- ▶ **Expected return on plan assets:** excluding amounts included in the net interest on the net defined benefit liability. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- ▶ **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 other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- ▶ **Contributions paid to the pension fund:** cash paid as employers contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. This means that there are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional 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.

OVERHEADS AND THE ALLOCATION OF SUPPORT SERVICE COSTS

The CIPFA Code now allows the Council to present the Cost of Services section of its Comprehensive Income and Expenditure Statement (CIES) on a Directorate basis, to mirror the Council's internal reporting structure. The requirement to use the SeRCOP Service headings prescribed by CIPFA has been removed from the Code.

As support service and overheads costs are reported under the Corporate Services, Assets & Investments, LGSS Managed and LGSS Operational Directorate headings in the Council's monthly Integrated Resources and Performance Reports (IRPR), they will also be presented on this basis within the Statement of Accounts. Therefore the cost of overheads and support services are no longer reapportioned within the Council's Statement of Accounts. Instead the costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

APPENDIX 1- ACCOUNTING POLICIES

RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts through the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and recorded against the Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The Council's reserves are categorised as follows:

- **Usable reserves** - those reserves that contain resources that a council can apply to the provision of services, either by incurring expenses or undertaking capital investment, whether or not there are particular restrictions on exactly what the resources can be applied to. The Council's usable reserves include the General Fund balance and Earmarked reserves;
- **Unusable reserves** – those that a council is not able to utilise to provide services. This category of reserves includes:
 - ▶ Reserves that hold unrealised gains and losses (the Revaluation Reserve), where amounts will only become available to provide services (or limit resources in the case of losses) once the gains/ losses are realised as the assets are disposed of.
 - ▶ Adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code. The accounts will carry either a debit balance (showing that the Council is required by statute to fund its expenditure more slowly than accounting standards would expect) or a credit balance (where the Council has set resources aside under statute earlier than accounting standards require). Examples of this category of reserves are the Capital Adjustment Account, Pensions Reserve and the Accumulated Absences Account.

DEBT REDEMPTION

The Council is required to make a provision for the repayment of debt in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A change in policy was introduced in 2015-16 for the proportion of the provision that relates to the historic debt liability that had accumulated to 31st March 2010. Up until 2014-15 this element of the provision was calculated using Option 1 of the Guidance, the "Regulatory Method", which based the calculation on 4% of the Capital Financing Requirement, amended for Adjustment A, on a reducing balance basis. From 2015-16 this debt liability will be provided for using an annuity calculation methodology, allowable under the DCLG Guidance.

Capital expenditure incurred from 2010-11 onwards will be subject to Minimum Revenue Provision (MRP) in the year after the asset has become operational. MRP will be provided for under Option 3 of the DCLG Guidance and will be based on the estimated useful life of the assets, using the equal annual instalment method.

APPENDIX 1- ACCOUNTING POLICIES

Estimated life periods will be determined under delegated powers. To the extent that expenditures do not create an asset and are of a type that are subject to estimated life periods that are referred to in the guidance, these estimated life periods will generally be adopted by the Council. In view of the variety of types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

The determination as to which schemes shall be deemed to be financed from available resources, and those which will remain as an outstanding debt liability to be financed by borrowing or other means will be assessed under delegated powers.

The policy will be reviewed annually to ensure prudence is achieved from using the options available and the option to delay charges until the year after the asset comes into operation (the MRP holiday) will be used where applicable.

Where it is considered prudent to do so, non-operational assets will be excluded from the MRP calculation and any under or over provisions that are identified for previous years will be taken into consideration in the calculation of the current year's provisions and adjusted accordingly.

PROVISIONS

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation.

Provisions are presented on the face of the Balance Sheet as either current or non-current liabilities. Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events that may or may not be incurred by the Council depending on the outcome of one or more uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed as a note to the financial statements.

APPENDIX 1- ACCOUNTING POLICIES

VALUE ADDED TAX (VAT)

The Comprehensive Income and Expenditure Statement excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of entities, and where the interests are not material the nature and value of the relationship is disclosed within the single entity accounts. In line with the Code requirements on group accounts and consolidation, maintained schools within the county are considered to be entities controlled by the Council. The income, expenditure, assets, liabilities, reserves and cash flows of these schools are recognised within the Council's single entity accounts rather than group accounts.

PENSION FUND

PENSION FUND INTRODUCTION	120
PENSION FUND ACCOUNT	121
PENSION FUND NET ASSET STATEMENT	122
NOTES TO THE PENSION FUND ACCOUNTS:	123
1. Description Of The Fund	123
2. Basis of Preparation	125
3. Summary of Significant Accounting Policies	126
4. Critical Judgement In Applying Accounting Policies	131
5. Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty	131
6. Events After The Year End Date	132
7. Contributions Receivable	132
8. Transfers In From Other Pension Funds	133
9. Benefits Payable	133
10. Payments To And On Account Of Leavers	134
11. Management Expenses	134
(a) Investment Management Expenses	135
12. Investment Income	135
13. Taxes on Income	135
14. Investments	136
(a) Reconciliation of Movements of Investments And Derivatives	137
(b) Analysis of investments (excluding derivative contracts)	139
(c) Investments analysed by fund manager	140
(d) Stock Lending	140
15. Analysis of Derivatives	141
16. Fair Value	141
(a) Fair Value Hierarchy	141
(b) Reconciliation of fair value measurements within Level 3	145
17. Financial Instruments	146
(a) Classification Of Financial Instruments	146
(b) Net Gains and Losses on Financial Instruments	147
18. Nature And Extent Of Risks Arising From Financial Instruments	147
19. Funding Arrangements	154
20. Actuarial Present Value Of Promised Retirement Benefits	156
21. Current Assets	157
22. Non-Current Assets	157
23. Current Liabilities	158

PENSION FUND

24. Additional Voluntary Contributions	158
25. Agency Services	159
26. Related Party Transactions	159
(a) Key Management Personnel	160
27. Contingent Liabilities And Contractual Commitments	160
28. Contingent Assets	160
29. Impairment Losses	160

PENSION FUND

The Cambridgeshire Fund is part of the Local Government Pension Scheme and is administered by Cambridgeshire County Council. The Fund is governed by the Public Services Pensions Act 2013 and is administered in accordance with the following secondary legislation:

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire, and a range of other scheduled and admitted bodies within the county area.

The Fund is overseen by the Cambridgeshire Pension Fund Committee, which is a committee of Cambridgeshire County Council.

Further details can be accessed on the Cambridgeshire Fund's website at the following link:

<http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/>

INTRODUCTION

- 1.1 The following comprises the Statement of Accounts for the Cambridgeshire County Council Pension Fund. The accounts cover the financial year from 1 April 2017 to 31 March 2018.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which gives supporting accounting policies, detail and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

31-Mar-17 £000		Notes	31-Mar-18 £000
	Dealing with members, employers and others directly involved in the fund:		
125,448	Contributions	7	128,410
3,292	Transfers in from other pension funds	8	4,932
128,740			133,342
(98,387)	Benefits	9	(99,345)
(10,421)	Payments to and on account of leavers	10	(10,126)
(108,808)			(109,471)
19,932	Net additions/(withdrawals) from dealing with members		23,871
(15,163)	Management Expenses	11	(16,954)
4,769	Net additions/(withdrawals) including fund management expenses		6,917
	Returns on investments:		
30,147	Investment income	12	38,142
-	Taxes on income	13	(329)
542,371	Profit and losses on disposal of investments and changes in the market value of investments	14a, 17b	70,998
572,518	Net return on investments		108,811
577,287	Net increase/(decrease) in the net assets available for benefits during the year		115,728
2,276,291	Opening net assets of the scheme		2,853,578
2,853,578	Closing net assets of the scheme		2,969,306

Notes on pages 123 to 160 form part of the financial statements.

PENSION FUND

NET ASSET STATEMENT

31-Mar-17 £000		Notes	31-Mar-18 £000
2,814,423	Investment assets		2,916,032
(1,137)	Investment liabilities		-
2,813,286	Total net investments	14	2,916,032
46,173	Current assets	21	57,564
(7,777)	Current liabilities	23	(5,554)
38,396	Net Current Assets		52,010
1,896	Non-current assets	22	1,264
2,853,578	Net assets of the Fund available to fund benefits at the end of the reporting period	16a, 17a	2,969,306

Notes on pages 123 to 160 form part of the financial statements.

Note: The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

The Cambridgeshire County Council Fund is part of the Local Government Pension Scheme and is administered by Cambridgeshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report 2017-18 on pages 3 to 63 and the underlying statutory powers underpinning the scheme.

General

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended);
- the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Cambridgeshire County Council to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Cambridgeshire Pension Fund Committee, which is a committee of Cambridgeshire County Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Cambridgeshire Pension Fund include:

- Scheduled bodies - local authorities and similar bodies whose staff are automatically entitled to be members of the Fund;
- Admitted bodies - other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

NOTES TO THE PENSION FUND ACCOUNTS

As at 31 March 2018 there are 206 (2017: 182) active employer within the Cambridgeshire Pension Fund, including the County Council itself. Active employers include multiple academy trusts counted as a single employer. Looking through these multiple arrangements the total number of underlying organisations as at 31 March 2018 was 327 (2017: 245), an increase of 82. The Fund has over 80,000 individual members, as detailed below:

Cambridgeshire Fund	31-Mar-18	31-Mar-17
Number of employers with active members	206	182
Number of employees in scheme:		
County council	9,726	10,907
Other employers	17,771	15,878
Total	27,497	26,785
Number of Pensioners:		
County council	8,352	8,165
Other employers	9,702	9,138
Total	18,054	17,303
Deferred pensioners:		
County council	16,962	16,484
Other employers	18,303	16,751
Total	35,265	33,235
Total members	80,816	77,323

Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employers' contributions are set as part of the triennial actuarial funding valuation. The last such valuation was at 31 March 2016. Employers' contributions comprise a percentage rate on active payroll between 11% and 25.1% and deficit payments of fixed cash amounts set for each employer as part of the triennial funding valuation.

NOTES TO THE PENSION FUND ACCOUNTS

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service 31 April 2008 to 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Career Average Revalued Earnings (CARE)

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based upon their pensionable pay in that year at an accrual rate of 1/49th or 1/98th for those members who have taken up the 50/50 option and pay proportionately lower contributions. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Cambridgeshire Pension Fund scheme handbook available from LGSS Pension Services based at One Angel Square, Angel Street, Northampton NN1 1ED or online at pensions.cambridgeshire.gov.uk.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017-18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTES TO THE PENSION FUND ACCOUNTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for on an accruals basis when the associated liability is accepted by the receiving scheme.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on an accruals basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

i) *Interest income*

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) *Dividend income*

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) *Distributions from pooled funds*

NOTES TO THE PENSION FUND ACCOUNTS

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) *Movement in the net market value of investments*

Changes in the net market value of investments are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

v) *Stock lending*

Stock lending income is recognised in the Fund Account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date. Securities on loan remain assets of the Fund and are recorded in the net assets statement at fair value.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities and paid in the following month.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (2016).

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with Council policy.

NOTES TO THE PENSION FUND ACCOUNTS

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with Council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

In 2016-17 as a result of the Fund adopting the guidance in CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016), there was a change in presentation of investment manager expenses as follows:-

- (i) Management fees charged as a deduction from the net asset value of pooled funds were now reported as investment management expenses and the return on investments grossed up accordingly;
- (ii) Transaction costs including brokerage fees and UK stamp duty incurred by segregated managers that had previously been reported within the cost of purchases or deducted from proceeds of sale of an investment were now reported within investment expenses and the cost of investment purchases or proceeds of sales are adjusted accordingly.

This treatment has been applied consistently for 2017-18.

Fees of the external Investment Managers and the Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with the following managers that an element of their fee be performance related:

- JO Hambro Capital Management – Global Equities
- Skagen Asset Management - Emerging Market

The Fund also had a performance fee related agreement with Schroders Investment Management Limited in respect of the Multi Asset mandate which was replaced on 1 July 2016 with separate mandates for UK Equities and Strategic Bonds for which there is no performance related fee. No performance fee was payable for the period ended 30 June 2016.

Where an Investment Manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2017-18, £1.5m of fees are based upon such estimates (2016-17: £ 1.3m). In addition, manager fees deducted from pooled funds of £7.9m (2016-17: £6.9m) are estimated based upon information received from fund managers.

NOTES TO THE PENSION FUND ACCOUNTS

The cost of obtaining investment advice from external consultants is charged direct to the Fund. All staff costs associated with investment activity are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged to the Fund.

Net Assets Statement

Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15).

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date, except for loans and receivables. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

NOTES TO THE PENSION FUND ACCOUNTS

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are deducted from the individual member's pay and paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 24).

Contingent assets and liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of a narrative in the notes.

NOTES TO THE PENSION FUND ACCOUNTS

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

The estimated liability is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term investment yield/return.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement as 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

NOTES TO THE PENSION FUND ACCOUNTS

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £428m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £81m, and a one-year increase in assumed life expectancy would approximately increase the liability by between £125m and £201m.
Cambridge and Counties Bank	Cambridge and Counties Bank is not publicly listed and as such there is a degree of estimation involved in the valuation. The Pension Fund's investment is valued on a market based approach with reference to price/earnings and price to book of comparable public companies.	The investment in the financial statements is £65.8m. There is a risk that this investment may be under, or overstated in the accounts
Other private equity and infrastructure	All other private equity and infrastructure investments are valued at fair value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. See Note 16a.	Total private equity and infrastructure investments (excluding Cambridge and Counties Bank – see above) at fair value in the financial statements are £209m. There is a risk that this investment may be under or overstated in the accounts.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

By category

2016-17 £000		2017-18 £000
25,874	Employees' contributions	25,322
	Employers' contributions:	
84,909	Normal contributions	82,290
14,665	Deficit recovery contributions	20,798
-	Augmentation contributions	-
99,574	Total employers' contributions	103,088
125,448		128,410

NOTES TO THE PENSION FUND ACCOUNTS

By authority

2016-17 £000		2017-18 £000
39,594	Administering Authority	38,591
77,666	Scheduled Bodies	82,374
2,991	Admitted Bodies	3,678
2,280	Community Admission Bodies	2,056
2,917	Transferee Admission Bodies	1,711
125,448		128,410

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2016-17 £000		2017-18 £000
-	Group transfers	-
3,292	Individual transfers	4,932
3,292		4,932

Group transfers relate to one-off events arising from the transfer of all or part of a business function from another local authority. The volume and value of individual transfers is dependent upon individual members' circumstances and will vary from year to year.

9. BENEFITS PAYABLE

By category

2016-17 £000		2017-18 £000
76,011	Pensions	78,846
20,003	Commutation and lump sum retirement benefits	18,573
2,373	Lump sum death benefits	1,926
98,387		99,345

NOTES TO THE PENSION FUND ACCOUNTS

By authority

2016-17 £000		2017-18 £000
38,673	Administering Authority	39,324
50,578	Scheduled Bodies	51,707
2,979	Admitted Bodies	2,865
3,884	Community Admission Bodies	3,370
1,121	Transferee Admission Bodies	948
1,152	Resolution Bodies	1,131
98,387		99,345

The increase in pensions payable during 2017-18 reflects the growth in the number of pensioners during the year.

The value of commutation and lump sum retirement benefits is dependent on volumes of retirements and the specific commutation decisions of retirees. Future trends will be dependent on employee decisions which will be influenced by commutation factors and the taxation environment.

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016-17 £000		2017-18 £000
306	Refunds to members leaving service	358
-	Payments for members joining state scheme	-
670	Group transfers	-
9,445	Individual transfers	9,768
10,421		10,126

Individual transfers are dependent on individuals having an approved pension arrangement to transfer their LGPS benefits to after leaving the Cambridgeshire Fund and also the relative merits of that destination arrangement in comparison with the LGPS.

Refunds to members leaving service are extremely sensitive to fluctuations as a result of the small relative value.

11. MANAGEMENT EXPENSES

2016-17 £000		2017-18 £000
2,218	Administrative costs	2,170
12,526	Investment management expenses (see note 11A)	14,609
419	Oversight and governance costs	175
15,163		16,954

NOTES TO THE PENSION FUND ACCOUNTS

Oversight and governance costs include actuarial fees which were higher in 2016-17 due to the fees incurred in respect of the triennial funding valuation.

11A. INVESTMENT MANAGEMENT EXPENSES

2016-17 £000		2017-18 £000
10,634	Management fees	12,451
508	Performance related fees	524
1,099	Transaction costs	532
283	Other costs	1,102
12,526		14,609

The increase in management fees in 2017-18 reflects the increase in the value of assets under management in the year.

12. INVESTMENT INCOME

2016-17 £000		2017-18 £000
405	Income from bonds	421
11,967	Income from equities	15,633
8,260	Pooled investments – unit trusts and other managed funds	9,952
6,788	Pooled Property Investments	6,747
1,661	Private equity/infrastructure income	4,733
902	Interest on cash deposits	441
164	Other	215
30,147		38,142

13. TAXES ON INCOME

2016-17 £000		2017-18 £000
-	Withholding tax - pooled	162
-	Withholding tax - equities	167
-		329

The Fund may receive income with Holding Tax attracted. There was no such income in 2016-17.

NOTES TO THE PENSION FUND ACCOUNTS

14. INVESTMENTS

31-Mar-17 £000		31-Mar-18 £000
	Investment assets	
74,590	Bonds	74,578
357,733	Equities	371,765
1,898,748	Pooled investments	1,953,899
192,549	Pooled property investments	206,671
246,179	Private equity/infrastructure	274,393
	Derivatives	
-	• Futures	-
41,910	Cash deposits	31,191
2,714	Investment income due	3,535
-	Amounts receivable for sales	-
2,814,423	Total investment assets	2,916,032
	Investment liabilities	
	Derivative contracts:	
-	• Futures	-
-	• Forward currency contracts	-
(1,137)	Amounts payable for purchases	-
(1,137)	Total investment liabilities	-
2,813,286	Net investment assets	2,916,032

NOTES TO THE PENSION FUND ACCOUNTS

14(a) Reconciliation of movements in investments and derivatives

	Market value 31-Mar-17	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31-Mar-18
	£000	£000	£000	£000	£000
Bonds	74,590	-	-	(12)	74,578
Equities	357,733	45,642	(26,329)	(5,281)	371,765
Pooled investments	1,898,748	216,414	(196,223)	34,960	1,953,899
Pooled property investments	192,549	15,113	(19,066)	18,075	206,671
Private equity/infrastructure	246,179	57,023	(53,442)	24,633	274,393
	2,769,799	334,192	(295,060)	72,375	2,881,306
Derivative contracts:					
• Futures	-	-	-	-	-
• Forward Currency Contracts	-	18	-	(18)	-
	2,769,799	334,210	(295,060)	72,357	2,881,306
Other investment balances:					
• Cash deposits	41,910			(1,310)	31,191
• Amount receivable for sales	-			-	-
• Investment income due	2,714			(49)	3,535
• Amounts payable for purchases of investments	(1,137)			-	-
Net investment assets	2,813,286			70,998	2,916,032

NOTES TO THE PENSION FUND ACCOUNTS

	Market value 1-Apr-16	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31-Mar-17
	£000	£000	£000	£000	£000
Bonds	61,316	378	-	12,896	74,590
Equities	266,984	90,034	(57,572)	58,287	357,733
Pooled investments	1,487,140	13,207	(28,951)	427,352	1,898,748
Pooled property investments	187,080	22,335	(16,391)	(475)	192,549
Private equity/infrastructure	207,353	23,130	(27,250)	42,946	246,179
	2,209,873	149,084	(130,164)	541,006	2,769,799
• Derivative contracts:					
Futures		-	-	-	-
• Forward Currency Contracts		-	(5)	5	-
	2,209,873	149,084	(130,169)	541,011	2,769,799
Other investment balances:					
• Cash deposits	31,929			1,360	41,910
• Amount receivable for sales	235				-
• Investment income due	2,580				2,714
• Amounts payable for purchases of investments	(1,006)			-	(1,137)
Net investment assets	2,243,611			542,371	2,813,286

Purchases and sales of derivatives are recognised in Note 14(a) above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses and recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

NOTES TO THE PENSION FUND ACCOUNTS

14(b). Analysis of Investments

31-Mar-17 £000		31-Mar-18 £000
	Bonds	
	UK	
74,590	Public sector quoted	74,578
74,590		74,578
	Equities	
	UK	
344,537	Quoted	357,135
	Overseas	
13,296	Quoted	14,630
357,833		371,765
	Pooled funds – additional analysis	
	UK	
67,173	Fixed income	68,404
677,130	Equity	257,953
	Overseas	
223,406	Fixed income	228,902
922,286	Equity	1,380,326
8,753	Cash Fund	18,314
1,898,748		1,953,899
192,549	Pooled property investments	206,671
246,179	Private equity/ infrastructure	274,393
-	Derivatives	-
438,728		481,064
41,910	Cash deposits	31,191
2,714	Investment income due	3,535
-	Amounts receivable for sales	-
44,624		34,726
2,814,423	Total investment assets	2,916,032
	Investment liabilities	
-	Derivatives	-
(1,137)	Amounts payable for purchases	-
(1,137)	Total investment liabilities	-
2,813,286	Net investment assets	2,916,032

NOTES TO THE PENSION FUND ACCOUNTS

14(c). Investments analysed by fund manager

Market value 31-Mar-17			Market value 31-Mar-18	
£000	% of net investment assets		£000	% of net investment assets
883,627	31.4	Schroders Investment Management	918,053	31.5
677,130	24.1	State Street Global Asset Management	-	-
482,112	17.1	Dodge & Cox Worldwide Investments	472,147	16.2
324,281	11.6	JO Hambro Capital Management	472,488	16.2
115,893	4.1	Skagen Funds	-	-
79,359	2.8	Adams Street Partners	67,151	2.3
57,230	2.0	M&G Investments	59,054	2.0
59,077	2.1	HarbourVest Partners (UK)	46,647	1.6
54,700	1.9	Cambridge and Counties Bank (direct holding)	65,850	2.3
27,806	1.0	Equitix	32,669	1.1
22,167	0.8	UBS Infrastructure	16,339	0.6
27,052	1.0	Partners Group (UK)	26,527	0.9
-	-	AMP Capital	9,575	0.3
-	-	Cambridge Building Society	10,000	0.3
-	-	UBS Passive	693,644	23.8
2,852	0.1	Cash with custodian	25,888	0.9
2,813,286	100.0		2,916,032	100.0

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme.

Security	Market value 31-Mar-17 £000	% of total fund %	Market value 31-Mar-18 £000	% of total fund %
Dodge & Cox Worldwide Funds plc - Global Stock Fund (GBP Accumulating Class)	482,112	16.9	472,147	15.9
State Street Managed Pension Fund All World Equity Index Sub-Fund	423,850	14.9	390,152	13.1
JO Hambro Capital Management Global Select Fund Sterling Z shares	324,281	11.4	472,488	15.9
State Street Managed Pension Fund UK Equity Index Sub-Fund	253,280	8.9	257,953	8.7
Schroders International Selection Fund – Strategic Bond	166,176	5.8	169,848	5.7

14(d). Stock Lending

The Fund's Investment Strategy sets the parameters for the Fund's stock-lending programme. At 31 March 2018, the value of quoted equities on loan was £92.7m (31 March 2017: £67.5m). These equities continue to be recognised in the Fund's financial statements. Counterparty risk is managed through holding collateral at the Fund's custodian. At the year end the custodian held collateral at fair value of

NOTES TO THE PENSION FUND ACCOUNTS

£99.3m (31 March 2017: £72.9m) representing 107% of stock lent. Collateral consists of acceptable securities and government debt.

15. ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

a) Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund's investment managers enter into forward foreign currency contracts to take advantage of current exchange rates.

Futures

There were no outstanding exchange traded future contracts at 31 March 2018 or 31 March 2017.

Open forward currency contracts

There were no open forward currency contracts at 31 March 2018 or 31 March 2017.

16. FAIR VALUE

16a. Fair value hierarchy

Valuation of Financial Instruments Carried At Fair Value

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur. The Fund has adopted the classification guidelines recommended in the Practical Guidelines on Investment Disclosures (PRAG/Investment Association, 2016).

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

NOTES TO THE PENSION FUND ACCOUNTS

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Cambridgeshire Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,139,986	1,309,116	413,890	2,862,992
Loans and receivables	111,868	-	-	111,868
Total financial assets	1,251,854	1,309,116	413,890	2,974,860
Financial liabilities				
Financial liabilities at amortised cost	(5,554)	-	-	(5,554)
Total financial liabilities	(5,554)	-	-	(5,554)
Net financial assets	1,246,300	1,309,116	413,890	2,969,306

NOTES TO THE PENSION FUND ACCOUNTS

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	435,038	1,966,718	370,757	2,772,513
Loans and receivables	89,979	-	-	89,979
Total financial assets	525,017	1,966,718	370,757	2,862,492
Financial liabilities				
Financial liabilities at amortised cost	(8,914)	-	-	(8,914)
Total financial liabilities	(8,914)	-	-	(8,914)
Net financial assets	516,103	1,966,718	370,757	2,853,578

There has been no change in the valuation techniques used for individual investments during the year.

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. The fair valuation of each class of investment asset is set out below.

NOTES TO THE PENSION FUND ACCOUNTS

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the account period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – not exchange traded open ended funds	Level 2	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Not required
Pooled investments – not exchange traded closed ended funds	Level 3	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date and lack of liquidity.
Private equity and infrastructure	Level 3	Comparable valuation of similar companies	Price/Earnings or EBITDA multiple	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date.
Private equity and infrastructure - other	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Share of net assets	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, and by any differences between audited and unaudited accounts.

NOTES TO THE PENSION FUND ACCOUNTS

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

Asset Type	Value as at 31-Mar-18 £000	Assessed valuation range (+/-) (% rounded)	Value on Increase £000	Value on Decrease £000
Property	139,497	14.3	159,445	119,549
Unquoted equity	274,393	25.5	344,363	204,423
Total Assets	413,890		503,808	323,972

16(b) Reconciliation of fair value measurements within Level 3

Period 2017-18	Market value 1-Apr- 2017	Transfers into level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value 31-Mar- 2018
	£000	£000	£000	£000	£000	£000	£000
Pooled property investments	124,578	-	19,903	(13,780)	5,355	3,441	139,497
Private equity and infrastructure - equity	54,700	-	-	-	-	11,150	65,850
Private equity and infrastructure - other	191,479	-	57,023	(42,292)	(12,629)	14,962	208,543
Total	370,757	-	76,926	(56,072)	(7,274)	29,553	413,890

NOTES TO THE PENSION FUND ACCOUNTS

17. FINANCIAL INSTRUMENTS

17a. Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the year.

31-Mar-17			31-Mar-18		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets					
74,590	-	-	74,578	-	-
357,733	-	-	371,764	-	-
1,898,748	-	-	1,958,827	-	-
192,549	-	-	201,744	-	-
246,179	-	-	274,393	-	-
-	-	-	-	-	-
-	73,775	-	-	73,422	-
2,714	-	-	3,535	-	-
-	16,204	-	-	16,597	-
2,772,513	89,979	-	2,884,841	90,019	-
Financial liabilities					
-	-	-	-	-	-
-	-	(1,137)	-	-	-
-	-	(7,777)	-	-	(5,554)
-	-	(8,914)	-	-	(5,554)
2,772,513	89,979	(8,914)	2,884,841	90,019	(5,554)
Total					
2,853,578			2,969,306		

NOTES TO THE PENSION FUND ACCOUNTS

17b. Net Gains and Losses on Financial Instruments

2016-17		2017-18
£000		£000
	Financial assets:	
541,006	Fair value through profit and loss	72,375
1,373	Loans and receivables	-
	Financial liabilities:	
5	Fair Value through profit and loss	(18)
(13)	Loans and Receivables	(1,359)
-	Financial liabilities measured at amortised cost	-
542,371	Total gains / (losses)	70,998

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund Risk Management Programme.

Responsibility for the Fund's Risk Management Strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Management Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels

NOTES TO THE PENSION FUND ACCOUNTS

- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisers, the Council has determined that the following movements in market price risk would have reasonably been possible for the 2017-18 reporting period. The Fund has used an adviser in a joint arrangement with a number of its ACCESS pool colleagues. The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movement +/- (%p.a.)
UK equities	16.8
Overseas equities	17.9
Global pooled equities	17.9
Index-linked bonds	9.2
Pooled fixed interest bonds	10.2
Property	14.3
Alternatives	25.5
Cash and Other investment balances	0.5

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below).

NOTES TO THE PENSION FUND ACCOUNTS

Asset Type	Value as at 31-Mar-18 £000	Percentage Change (% rounded)	Value on Increase £000	Value on Decrease £000
UK equities	615,088	16.80	718,423	511,753
Overseas equities	14,630	17.90	17,249	12,011
Global pooled equities	1,385,253	17.90	1,633,213	1,137,293
Index-linked bonds	74,578	9.20	81,439	67,717
Pooled fixed interest bonds	297,306	10.20	327,631	266,981
Property	201,744	14.30	230,593	172,895
Alternatives	274,393	25.50	344,363	204,423
Cash and Other investment balances	53,040	0.50	53,305	52,775
Total Assets	2,916,032		3,406,216	2,425,848

Note that due to the diversification of investments across asset classes the volatility of the total fund may be lower than the total shown above for the aggregation of the individual asset classes.

Asset Type	Value as at 31-Mar-17 £000	Percentage Change (% rounded)	Value on Increase £000	Value on Decrease £000
UK equities	1,021,567	15.80	1,182,975	860,159
Overseas equities	13,296	18.40	15,742	10,850
Global pooled equities	922,286	18.90	1,096,598	747,974
Index-linked bonds	74,590	9.00	81,303	67,877
Pooled fixed interest bonds	290,579	10.10	319,927	261,231
Property	192,549	14.20	219,891	165,207
Alternatives	246,179	26.10	310,432	181,926
Cash and Other investment balances	52,240	0.00	52,240	52,240
Total Assets	2,813,286		3,279,108	2,347,464

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

NOTES TO THE PENSION FUND ACCOUNTS

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) (i.e. 0.80%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1.0%) change in interest rates:

31-Mar-17 £000	Asset Type	31-Mar-18 £000
41,910	Cash and cash equivalents	31,191
31,865	Cash balances	42,232
74,590	Index-linked securities	74,578
290,579	Fixed interest securities	297,306
438,944	Total	445,307

Assets exposed to interest rate risk	Value at 31-Mar-18 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	31,191	-	31,191	31,191
Cash balances	42,231	-	42,231	42,231
Index-linked securities	74,578	746	73,832	75,324
Fixed interest securities	297,306	2,973	294,333	300,279
Total change in assets available	445,306	3,719	441,587	449,025

Assets exposed to interest rate risk	Value at 31-Mar-17 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	41,910	-	41,910	41,910
Cash balances	31,865	-	31,865	31,865
Index-linked securities	74,590	746	73,844	75,336
Fixed interest securities	290,579	2,906	287,673	293,485
Total change in assets available	438,944	3,652	435,292	442,596

NOTES TO THE PENSION FUND ACCOUNTS

Income exposed to interest rate risk	Amount receivable in 2017-18 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits, cash and cash equivalents	441	4	437	445
Index-linked securities	421	4	417	425
Fixed interest securities	4,044	-	4,044	4,044
Total	4,906	8	4,898	4,914

Income exposed to interest rate risk	Amount receivable in 2016-17 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits, cash and cash equivalents	902	9	893	911
Index-linked securities	405	4	401	409
Fixed interest securities	4,385	-	4,385	4,385
Total	5,692	13	5,679	5,705

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of the assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data with the Fund's advisers, the Council considers the likely volatility associated with foreign exchange rate movements to be 10.0% (the 1 year expected standard deviation).

A 10.0% (31 March 2017: 10.0%) fluctuation in the currency is considered reasonable based on the Fund adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

NOTES TO THE PENSION FUND ACCOUNTS

A 10.0% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows. A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value at 31-Mar-18 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas Equities	1,394,955	139,496	1,534,451	1,255,459
Overseas Fixed Income	228,902	22,890	251,792	206,102
Overseas Cash Fund	18,314	1,831	20,145	16,483
Total	1,642,171	164,217	1,806,388	1,477,954

Assets exposed to currency risk	Value at 31-Mar-17 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas Equities	935,582	93,558	1,029,140	842,024
Overseas Fixed Income	223,406	22,341	245,747	201,065
Overseas Cash Fund	8,753	875	9,628	7,878
Total	1,167,741	116,774	1,284,515	1,050,967

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

NOTES TO THE PENSION FUND ACCOUNTS

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £73.4m (31 March 2017: £73.8m). This was held with the following institutions:-

	Rating	31-Mar-18 £000	31-Mar-17 £000
Money market funds			
Northern Trust Global Investors Global Cash Fund	Aaa-mf	31,034	41,125
UK Treasury Bills			-
Bank deposit account			
Barclays Bank	A	42,232	31,865
Bank current accounts			
Northern Trust custody accounts	P-1	157	785
Total		73,423	73,775

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its cash holdings, with the exception of holdings that are for a fixed term when the deposit is placed.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2018 the value of illiquid assets was £403.5m, which represented 13.6% of the total Fund assets (31 March 2017: £438.7m, which represented 15.4% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

d) Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

NOTES TO THE PENSION FUND ACCOUNTS

19. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a maximum period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 100%, a deficit recovery plan is put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the Fund was assessed as 78.4% funded (72.4% at the March 2013 valuation). This corresponded to a deficit of £625m (2013 valuation: £728m) at that time.

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2016 triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate %	Secondary Rate %		
	2017/2018	2018/2019	2019/2020
1 April 2017 to 31 March 2020	2017/2018	2018/2019	2019/2020
18.1%	£26,039,000	£17,959,000	£18,355,000

NOTES TO THE PENSION FUND ACCOUNTS

The Primary rate above includes an allowance of 0.6% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the Fund's website.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Basis of valuation

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

Assumption	Description	31-Mar-16		31-Mar-13	
		Nominal	Real	Nominal	Real
Price inflation (RPI)		3.3%	-	3.3%	-
Price Inflation (CPI)/ Pension increases		2.1%	-	2.5%	-
Pay increases – 2016	RPI minus 0.7% p.a.*	2.4%	(0.7)%	n/a	n/a
Pay increases – 2013	RPI plus 1% p.a.*	n/a	n/a	4.3%	1.0%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.8% p.a. (2013: 1.6% p.a.).	4.0%	n/a	4.6%	n/a

*Plus an allowance for promotional pay increases.

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Assumed life expectancy at age 65	Active and Deferred Members		Current Pensioners	
	Male	Female	Male	Female
2013 valuation	24.4	26.9	22.5	24.5
2016 valuation	24.0	26.9	22.5	24.5

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

NOTES TO THE PENSION FUND ACCOUNTS

Other demographic valuation assumptions:

a) Retirements in ill health

Allowance has been made for ill-health retirements before Normal Pension Age.

b) Withdrawals

Allowance has been made for withdrawals from service.

c) Family details

A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.

d) Commutation

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 25% of HMRC limits for service to 31 March 2008 and 63% of HMRC limits for service from 1 April 2008.

e) 50:50 option

5.0% of members (uniformly distributed across the age, service and salary range) are assumed to choose the 50:50 option under which they pay 50% lower contributions and receive proportionally lower retirement benefits.

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

31-Mar-17 £000		31-Mar-18 £000
(4,175)	Present value of promised retirement benefits	(4,267)
2,854	Fair value of scheme assets (bid value)	2,958
(1,321)	Net liability	1,309

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

NOTES TO THE PENSION FUND ACCOUNTS

Assumptions used

	31-Mar-18 % p.a.	31-Mar-17 % p.a.
Inflation/pension increase rate assumption	2.4	2.4
Salary increase rate	2.7	2.7
Discount rate	2.7	2.6

21. CURRENT ASSETS

31-Mar-17 £000		31-Mar-18 £000
	Debtors:	
861	Contributions due – members	1,544
3,077	Contributions due – employers	3,671
223	Transfer values receivable (joiners)	-
10,147	Sundry receivables	10,117
14,308		15,332
31,865	Cash balances	42,232
46,173		57,564

Analysis of debtors

31-Mar-17 £000		31-Mar-18 £000
3,715	Central government bodies	5,222
6,825	Other local authorities	5,261
24	NHS bodies	62
3,333	Public corporations and trading funds	466
411	Other entities and individuals	4,321
14,308		15,332

22. NON CURRENT ASSETS

With effect from 1 April 2005, 71 employees of the Cambridgeshire Magistrates' Courts transferred out of the Cambridgeshire Fund as part of a national transfer of the Magistrates' Courts out of Local Government schemes. However, the Cambridgeshire Fund has retained the liability for the Magistrates' pensioners and deferred pensioners. An assessment of the transfer by the scheme's actuary, which was agreed by the Government Actuary's Department in March 2011, has resulted in an annual amount of £0.632m to be paid by the Ministry of Justice (former Department for Constitutional Affairs) to the Fund as the valuation of the transfer out was less than the retained liability. Annual payments commenced in April 2011 for ten years. At 31 March 2018, a total of £1,896,000 was still due from the Ministry of

NOTES TO THE PENSION FUND ACCOUNTS

Justice, with £632,000 being shown in Current Assets and £1,264,000 being due after 31 March 2019 being shown in Non-Current Assets.

23. CURRENT LIABILITIES

31-Mar-17 £000		31-Mar-18 £000
4,126	Sundry payables	5,113
2,962	Transfer values payable (leavers)	-
689	Benefits payable	441
7,777		5,554

Analysis of creditors

31-Mar-17 £000		31-Mar-18 £000
-	Central government bodies	1,076
7,002	Other local authorities	2,776
-	NHS bodies	-
180	Public corporations and trading funds	5
595	Other entities and individuals	1,697
7,777		5,554

24. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31-Mar-17 £000		Market value 31-Mar-18 £000
418	Equitable Life	403
7,986	Prudential	7,741
8,404		8,144

No contributions (2016-17: no contributions) were paid to Equitable Life during the year and total contributions of £799k were paid directly to Prudential during the year (2016-17: £1,026k).

NOTES TO THE PENSION FUND ACCOUNTS

25. AGENCY SERVICES

Agency Services represent activities administered by the Fund on behalf of scheme employers which are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies. A review of Agency Services has resulted in an increase in Agency payments recognised in 2017-18.

2016-17 £000	2017-18 £000
2,360 Unfunded pensions	3,605
2,360	3,605

26. RELATED PARTY TRANSACTIONS

Cambridgeshire County Council

The Cambridgeshire County Council Pension Fund is administered by Cambridgeshire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £2.4m (2016-17: £2.4m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of members of the Pension Fund and contributed £30.3m to the Fund in 2016-17 (2016-17: £31.1m). At 31 March 2018 there was £2.0m (31 March 2017: £1.3m) due to the Fund by the Council.

Governance

The following Pension Fund Committee members declared a personal interest due to either being a member of the scheme themselves or having a family member in the scheme:-

- Councillor Anne Hay
- Councillor Michael Shellens
- Matthew Pink
- Tracy Roden

County Council members have declared their interests in their Register of Members' Interests. Other members of the Pension Fund Board are required to declare their interests at each meeting.

Cambridge and Counties Bank

The Fund is joint owner, along with Trinity Hall, Cambridge, of Cambridge and Counties Bank (CCB). The Council's Section 151 Officer is Non-executive Director on the Board of CCB for which CCB pays £40,000 p.a. to the Council.

NOTES TO THE PENSION FUND ACCOUNTS

26(a) KEY MANAGEMENT PERSONNEL

The administration of the Fund is provided by LGSS which is a shared service arrangement between Cambridgeshire County Council and Northamptonshire County Council. The Head of Pensions in the shared service unit reports directly to the LGSS Director of Finance whose costs are reported in the Northamptonshire County Council statement of accounts. The Director of Finance is remunerated for his services to the organisation as a whole and it is not possible to identify within the overhead charge from LGSS the proportion of his costs relating to services to the Fund.

27. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2018 totalled £181.2m (31 March 2017: £162.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

28. CONTINGENT ASSETS

Eighteen admitted body employers in the Cambridgeshire Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default, and usually only in the event of premature cessation.

GLOSSARY

ACCRUAL

An amount to cover income or spending that belongs to the accounting year, which was outstanding at the accounting date.

ACCUMULATED ABSENCES ACCOUNT

An unusable reserve which 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.

ACTUARIAL BASIS

Valuations performed by an actuary relating to a pension scheme's assets and liabilities.

ACTUARY

An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

ADMITTED BODIES

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

ALL SHARE INDEX

Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

AMORTISATION

The process of reducing the value of an asset or liability over its useful life.

AT BEST

An instruction to deal at the best price ruling in the market at the time, i.e. The highest price (selling) or lowest (buying).

AUTHORISED UNIT TRUSTS

A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

AVAILABLE FOR SALE FINANCIAL ASSETS

Assets that have a quoted market price and/or do not have fixed or determinable payments.

BALANCE SHEET

A summary of financial position showing the assets and liabilities recognised by the Council, matched by the level of reserves held.

BALANCES

The accumulated surplus of income over expenditure on the General Fund (see later).

GLOSSARY

BARGAIN

Another name for a trade or transaction of the Stock Exchange.

BENEFICIAL OWNER

The true owner of a security regardless of the name in which it is registered.

BID PRICE

The price at which securities are purchased by market makers.

BOND

Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured

BUDGET

A statement defining the Council's policy over a specified period expressed in financial terms and including other performance and statistical data.

BUILDING SCHOOLS FOR THE FUTURE (BSF)

A national programme to bring all secondary schools up to modern standards over the next 15-20 years.

CAPITAL ADJUSTMENT ACCOUNT

An account that reflects the difference between the cost of long-term assets consumed and the capital financing set aside to pay for them.

CAPITAL FINANCING REQUIREMENT

A notional amount of debt which determines the Minimum Revenue Provision.

CAPITAL GRANTS

Grants received towards capital spending (see next) on a particular service or project.

CAPITAL SPENDING

Payments made for the acquisition or provision of assets which will be of long-term value to the Council e.g. land, buildings and equipment.

CAPITAL RECEIPTS

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing loan debt.

CARRY FORWARDS

Directorates, Schools and Trading Units are permitted/ required to transfer any underspending or overspending into the next financial year.

GLOSSARY

CASH EQUIVALENTS

Assets which are readily convertible into cash.

CLEAN PRICE

The price of a bond which is quoted without accrued interest.

COMMUNITY ADMISSION BODIES

Employers who may be admitted to the scheme if they meet the requirements of Regulation 5 and regulation 7 of the LGPS (Administration) Regulations 2008 (as amended). Typically these are bodies that provide a public service, e.g. charitable bodies, otherwise than for the purpose of gain and which have sufficient links to a local authority or other scheme employer to be regarded as having a community of interest.

COMMUTATION

Giving up part or all of the pension payable from retirement in exchange for an immediate lump sum. Commutation factors (usually calculated by the Scheme Actuary) are used to determine the amount of pension which needs to be given up in order to provide the lump sum.

CONTINGENT ASSETS AND LIABILITIES

Are assets and liabilities that may or may not be incurred depending on the outcome of a future event.

CONTRACT NOTE

The documentary record of a trade which is sent from the broker to the investor

CONVERTIBLE

Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

CORPORATE AND DEMOCRATIC CORE

Income and expenditure relating to the corporate management and democratic processes of the Council.

COUPON

The regular payment made on bonds.

CREDITS (PFI)

A measure of private sector investment that will be supported by central government grant and acts as a promise that PFI grant can be claimed once a PFI project is operational.

CURRENT ASSETS

Short-term assets such as inventories, receivables and bank balances.

CURRENT LIABILITIES

Amounts owed which are due to be settled in less than one year, such as bank overdrafts and money owed to suppliers.

GLOSSARY

DEBENTURE

Fixed loan stock (bond) secured against the company's property, plant and equipment. First in the event of the company going into liquidation.

DEFERRED PENSION BENEFIT

A pension benefit which a member has accrued but is not yet entitled to receive.

DEFICIT

An outcome as a result of taking away all expenses from income.

DEPRECIATION

The measure of the wearing out, consumption or other reduction in the useful economic life of a long-term asset.

DERIVATIVE

A special type of contract that derives its value from the performance of an underlying entity. This underlying entity can be an asset, index, or interest rate, and is often called the "underlying". Derivatives can be used for a number of purposes - including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard to trade assets or markets.

DISTRIBUTION DATES

The date when interest or dividends are distributed to investors. Also called Payment Date.

DIVIDEND

The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. [See also Equities]

EARMARKED RESERVE

An earmarked reserve is money set aside for a specific purpose.

EARNINGS PER SHARE (EPS)

The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

EQUITIES

Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

EVENTS AFTER THE BALANCE SHEET DATE

Events occurring between the Balance Sheet date and the date on which the Accounts are signed by the Chief Finance Officer, which have a significant impact on the Council's finances.

GLOSSARY

FINANCIAL INSTRUMENTS

Contracts which give rise to a financial asset of one entity and a financial liability or equity instrument of another.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

An account to manage the imbalance between accounting rules and statutory provisions for charging amounts to the general fund. The “balancing” entry for each of the adjustments for the Financial Instruments will constitute a new reserve on the Balance Sheet called “Financial Instruments Adjustment Account”. This reserve is not a usable reserve.

FINANCIAL CONDUCT AUTHORITY (FCA)

The lead UK regulator. A designated agency which is not a government department.

FIXED INTEREST CORPORATE BOND

A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum

FORCE MAJEURE

A common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, such as a war, strike, riot, crime, or an event described by the legal term *act of God* (such as hurricane, flooding, earthquake, volcanic eruption, etc.), prevents one or both parties from fulfilling their obligations under the contract.

FTSE-100 INDEX

The main UK index used to represent the approximate price movements of the top 100 shares.

FUTURES

Instruments which give a buyer the right to purchase a commodity at a future date.

GEARING

The amount of borrowing versus debt on a company’s Balance Sheet (Net debt/Ordinary shareholders’ funds). Warrants and options also exhibit gearing, i.e. a small move in the price of the underlying asset can be magnified in the move in the price of the option.

GENERAL FUND

The main revenue fund of the Council. Council tax precepts and Government grants are paid into the fund, from which the cost of providing services is met.

GILT

Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and are a loan to the Government.

GLOSSARY

GOVERNMENT GRANTS

Payments by Central Government towards Local Authority spending. They may be specific to a particular service e.g. Education or Social Services; or general.

HEDGE

To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

HEDGE FUND

A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

HERITAGE ASSETS

Assets (land, building, or artefact/ exhibit) held principally for their contribution to knowledge or culture.

IMPAIRMENT

A reduction in the value of an asset from its previous value in the accounts.

IMRO

Investment Management Regulatory Organisation. Fund Manager Regulator.

INCOME

Amounts which the Council receives, or expects to receive, from any source. Income includes fees, charges, sales, government grants and precept. The term income implies that the figures concerned relate to amounts due in a financial year irrespective of whether or not they have been received in that year.

INDEX LINKED

Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation.

INTEREST YIELD

The annual coupon on a bond divided by the clean price.

INFRASTRUCTURE ASSETS

Assets such as roads and bridges.

INTANGIBLE ASSETS

Non-monetary assets that cannot be seen, touched or physically measured, but can be identified as a separate asset.

INTERNAL CONTROLS

Procedures or systems designed to promote efficiency, assure policy implementation, safeguard assets and avoid fraud and error.

GLOSSARY

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Accounting Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB).

INVENTORIES

Goods bought but have not been used.

LGSS

A partnership between Cambridgeshire, Northamptonshire County Councils and Milton Keynes Council to create a wholly owned public sector organisation to deliver professional and transactional support services.

LOAN STOCK

Unsecured bonds, which may be convertible if they have a warrant attached.

LONG-TERM ASSETS

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

MARKET CAPITALISATION

For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

MEDIUMS

Medium-dated Gilts with time to maturity of 5-15 years.

MINIMUM REVENUE PROVISION

The minimum amount which must be charged to revenue in the year for the repayment of debt.

NET BOOK VALUE

The depreciated value of an asset.

NOMINEE

A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

NON-DISTRIBUTED COSTS

Costs that cannot be specifically applied to a service and are held centrally.

OFFER PRICE

The price at which market makers will sell stock.

ORDINARY SHARES

'A' Shares which confer full voting and dividend rights to the Owner.

GLOSSARY

PAYABLES

Amounts owed by the Council for work done, goods received, or services rendered but for which payment had not been made at the date of the Balance Sheet.

PENSIONS STRAIN

Charges to employers to cover discretionary early retirement costs, which are the responsibility of the employer, recovered in the first year of retirement in full.

POOLED BUDGET

A partnership where participants aggregate funds to work collaboratively to address specific issues.

PRECEPT

The cash sum levied by one Authority in relation to council tax, which is collected by another (a billing Authority). The County Council is the precepting Authority and the District Councils are the billing authorities, acting as an agent for the Council.

PRIVATE FINANCE INITIATIVE (PFI)

A form of partnership between the private and public sector which is normally used for high risk / high value contracts for delivering capital assets for the provision of public services. The private sector designs, builds and maintains infrastructure and other capital assets and then operates those assets in return for annual payments to sell services to the public sector.

PROPERTY, PLANT AND EQUIPMENT

A non-current asset or long-term asset item which cannot easily be converted into cash.

PROVISION

An amount set aside for liabilities, which are known to exist, but which cannot be definitively measured at the date of the accounts.

PRUDENTIAL BORROWING

Borrowing which is financed from the Council's own resources and conforms to the Prudential Code.

PUBLIC WORKS LOAN BOARD

A government body set up specifically to lend money to local authorities.

RECEIVABLES

Sums of money due to the Council but unpaid at the Balance Sheet date.

RELATED PARTY

A person or an organisation which has influence over another person or organisation.

RESERVES

Amounts set aside for particular purposes but which do not conform to the definition for provisions. Movements in reserves are not part of service expenditure.

GLOSSARY

REVALUATION RESERVE

A reserve for amounts arising from the appreciated value of property; the difference between the former book value of property on the Balance Sheet and the present (revalued) book value of the property. The Revaluation Reserve will record the sum of the net gains (if any) on a property-by-property basis from revaluations made after 1 April 2007.

REVENUE CONTRIBUTIONS

The shortened form of Revenue Contributions to Capital Outlay (often abbreviated as RCCO). It refers to the financing of capital spending directly from revenue, rather than loan or other sources.

REVENUE EXPENDITURE

The day-to-day spending of the Council on such items as employees, office running costs, and the purchase of services

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a long-term asset.

REVENUE SUPPORT GRANT (RSG)

The general grant paid by Central Government to aid Local Authority spending generally.

RIGHTS ISSUE

A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

SCHEDULED BODIES

Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

STOCK

Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

SURPLUS

An outcome as a result of taking away all expenses from income.

TRANSFER VALUES

Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

GLOSSARY

TRANSFeree ADMISSION BODIES

Employers who may be admitted to the scheme if they meet the requirements of Regulation 6 and Regulation 7 of the LGPS (Administration) Regulations 2008 (as amended). Typically these are bodies that are formed when a service or function offered by a local authority or other scheduled body is contracted out to the private sector.

TREASURY MANAGEMENT

A process which plans, organises and controls cash, investments and borrowings so as to optimise interest and currency flows, and minimise the cost of funds.

TRUST

Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

UNDERWRITER

A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

UNIT TRUST

An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the Fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

WARRANTS

Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (Solace) Framework *Delivering Good Governance in Local Government*.

This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which require all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The Governance Framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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

The Governance Framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the Annual Report and Statement of Accounts.

ANNUAL GOVERNANCE STATEMENT

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are:

- Members exercising strategic leadership by developing and keeping under review the Council's vision and priorities. These set out and communicate the Council's vision of its purpose and intended outcomes for citizens and service users;
- An established business planning process which ensures that services are delivered in accordance with the Council's objectives and represents the best use of resources;
- The measurement of performance in achieving objectives through the mechanisms of the Council's performance management system;
- Embedded Codes of Conduct which define the standards of behaviour for members and employees;
- A written Constitution which specifies the roles and responsibilities of elected members and officers, with clear delegation arrangements and protocols for effective communication. The Constitution setting out Schemes of Delegation to members and officers; Financial Procedure Rules; and other supporting procedures for how decisions are taken and the processes and controls required to manage risk. Having arrangements in place to ensure these are reviewed regularly;
- An Audit and Accounts Committee which is responsible for independent assurance on the adequacy of the risk management framework and the associated control environment; the independent scrutiny of the Council's financial performance, to the extent that it affects the Council's exposure to risk and weakens the control environment; and for overseeing the financial reporting process;
- Statutory officers to support and monitor the Council's governance arrangements, ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;
- Embedded arrangements for whistleblowing and for receiving and investigating complaints from the public, supporting the measurement of the quality of services for users;
- A Consultation Strategy to ensure the Council consults with and engages the diverse communities of Cambridgeshire, allowing them to have a say in the planning and reviewing of the services provided for them.
- A committee-based system of governance, which provides the Council with the high standards of Governance expected of a local authority. Under the committee system of governance, decisions are made by cross-party committees, meaning that a separate scrutiny function is no longer necessary.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Corporate Governance Framework, including the system of internal control.

ANNUAL GOVERNANCE STATEMENT

The review of effectiveness is informed by:

- Assurances from executive managers within the Council who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's and Risk Management's annual reports.
- Comments made by external auditors and other review agencies and inspectorates.

The Governance Framework and its constituent elements have been developed by executive managers and consulted upon with all members, the Audit and Accounts Committee and the Senior Management Team, as appropriate.

The arrangements for reviewing the Governance Framework comprise:

- A review of the Governance Framework and Internal Control Environment in accordance with CIPFA guidance, carried out by Internal Audit annually. Within this, consideration has been given to ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA statement on the role of the Chief Financial Officer in Local Government and the role of the Chief Internal Auditor in Public Service Organisations.
- An annual review of the Council's Code of Corporate Governance undertaken by staff within Internal Audit.
- The annual report and opinion on the Internal Control environment prepared by the Chief Internal Auditor. This report draws upon the outcome of audit reviews undertaken throughout 2017/18 and is informed by the comments of external auditors and inspectors. The report is designed to provide assurance on the effectiveness of internal controls.
- The completion of Self-Assurance Statements by directors.
- The consideration of relevant outputs from member- and officer-led reviews undertaken during the year, and the comments made by the external auditors and other review agencies and inspectorates.

ANNUAL GOVERNANCE STATEMENT

The key aspects of the review of effectiveness are:

i. Council Planning

There is a clear vision of the outcomes which the Council wants to achieve for local people as set out in the Business Plan.

The Council operates a planning process which integrates all aspects of strategic, operational and financial planning which has the full involvement of executive councillors and all senior managers of the Council. This ensures financial plans realistically support the delivery of the Council's priority outcomes and strategy obligations in the short and medium terms.

The budget preparation process was subject to robust challenge by councillors and involved extensive consultation with the people and businesses of Cambridgeshire.

ii. Performance Management

The Council presents a corporate Integrated Resources and Performance Report to councillors on a monthly basis. This is available to the public on the Council's internet site, giving them an insight into the Council's overall performance.

In 2017/18 a review of the Council's corporate Key Performance Indicators was commenced, with the intention of aligning these more closely to financial reporting.

iii. Executive Decision Making and Scrutiny

Executive decisions are made by one of the Council's five cross-party service committees. A process is in place to allow for executive decisions to be reviewed following request by at least 8 members of the General Purposes Committee, which must be made within 3 days of a decision being published.

iv. The Audit and Accounts Committee

The Audit and Accounts Committee provides independent, effective assurance on the adequacy of the Council's governance environment. All major political parties are represented on the Audit Committee.

The Audit and Accounts Committee met regularly during 2017/18, considering reports, including the annual Internal Audit Report, from the Chief Internal Auditor, the Council's Senior Finance Officers and the External Auditor. Additionally, the Committee invited officers of the Council to attend the Committee on a number of occasions to assist the Committee in its work. The Chair of the Audit and Accounts Committee presents an annual report to Council detailing the work of the Audit and Accounts Committee in the preceding year.

v. Statutory Officers

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer, S151 Officer, Director of Public Health and the Executive Director of People and Communities were effectively fulfilled during 2017-18 and up to the date of this report.

ANNUAL GOVERNANCE STATEMENT

vi. Management

The Council's Executive and Corporate Directors have provided assurance through Self-Assurance Statements that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of the Council which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities;
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks;
- Service Directors and/or relevant senior staff have provided assurance on the key elements of risk and control in their areas of responsibility;
- Throughout the financial year they consider that risks and internal controls have been sufficiently addressed to provide reasonable assurance of effective financial and operational control, compliance with the Code of Corporate Governance and other laws and regulations.

No exceptions to the above were identified by Directors in their assurance statements.

vii. Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit, which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

The Chief Internal Auditor provided his annual report to the Audit Committee on 12th June 2018. The report outlined the key findings of the audit work undertaken during 2017/18, including areas of significant weakness in the internal control environment.

An assurance scoring mechanism, based on three opinions, is used to reflect the effectiveness of the Council's internal control environment. The opinions are:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

From the audit reviews undertaken during 2017/18, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Audit and Accounts Committee on a quarterly basis.

ANNUAL GOVERNANCE STATEMENT

It is the opinion of the Chief Internal Auditor that:

“On the basis of the audit work undertaken during the 2017/18 financial year, an opinion of good assurance is awarded. The internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by Internal Audit. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. I am pleased to report that the level of assurance therefore remains at a similar level from 2016/17.”

The detail to support this assessment was provided in the Annual Internal Audit Report which was presented to the Audit and Accounts Committee on 12th June 2018.

viii. Review of Internal Audit

The Public Sector Internal Audit Standards were introduced from April 2013. The Internal Audit service has operated in compliance with Public Sector Internal Audit Standards throughout the year. The Cambridgeshire office of LGSS Internal Audit underwent an external review of compliance with Public Sector Internal Audit Standards in December 2016/17, and a number of recommendations were agreed to further improve the work of the service, including the introduction of a new Terms of Reference format, and the inclusion of some specific areas within the Annual Report. A follow-up visit in May 2017 confirmed the implementation of these actions and confirmed compliance with the latest set of standards issued in April 2017.

ix. External Audit

BDO was the Council’s appointed External Auditor for the 2016/17 Accounts. As well as an examination of the Council’s financial statements, the work of the Council’s External Auditor included an assessment of the degree to which the Council delivers value for money in its use of its resources. An objection to the annual accounts was received from a local elector, which remains under consideration by the External Auditor. In the Annual Audit letter, the External Auditor issued an unmodified conclusion on the ability of the Council to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

x. Risk Management

The Council managed its risks during 2017/18 in accordance with the approved Risk Management Policy and the Risk Management Procedures. The Strategic Management Team and Directorate Management Teams formally considered risk on a quarterly basis. Quarterly risk management reports were submitted to both the General Purposes Committee and the Audit and Accounts Committee.

The Internal Audit Plan for 2018/19 presented to the Audit and Accounts Committee in March 2018 is substantially based upon the key risks faced by the Council as identified in the Corporate and Directorate risk registers, such that Internal Audit will provide assurance on the effectiveness of the internal control framework during 2018/19.

A full review of the Council’s corporate risk register and risk management took place in 2017/18, alongside the review of corporate KPIs, aligning risk reporting more closely to the Council’s financial reporting processes. In addition, a ‘Risk Management Health Check’ was conducted by the Council’s

ANNUAL GOVERNANCE STATEMENT

insurer's Zurich. The final report was received in April 2018, and will inform further improvements in risk management processes in 2018/19.

SIGNIFICANT GOVERNANCE ISSUES

The review of the effectiveness of the Governance Framework has provided a satisfactory level of assurance on the effectiveness of the Council's governance arrangements. Arrangements in place comply with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Annual Governance Statement process allows the Council to identify any significant governance issues that have been identified, and the associated actions it is proposing to undertake to enhance its corporate governance arrangements. However, there are no such actions requiring specific mention in the 2017/18 Annual Governance Statement.

Cambridgeshire does continue to face very significant future challenges associated with an increase in demand and inflation and a significant reduction in Central Government funding. The Council's 5 year Business Plan is reflective of these pressures, and is subject to annual review, to ensure the extreme financial pressures facing the Council in the latter stages of the Plan can be met, whilst continuing to provide effective services to the people of Cambridgeshire.

It is recognised that in order to address this increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. To achieve this, Cambridgeshire County Council has developed a Transformation Fund, for which the General Purposes Committee has stewardship. This enables the authority to fund the costs of transforming services through the ongoing Transformation Programme.

In order to address financial pressures across the public sector, partnership working between the County Council and other public sector organisations is increasingly important. On 16th March 2017, the Secretary of State for Communities and Local Government announced the Cambridgeshire and Peterborough Combined Authority devolution deal. The integrity of Cambridgeshire County Council is protected under this deal and the Council will continue to deliver the vast majority of services for residents as it does currently, with the Leader of the Council acting as a member of the Combined Authority.

In future years, there is the potential that devolution in the region could evolve further and this may impact further upon the authority's governance arrangements. Cambridgeshire County Council already works closely with other public sector bodies in the region, and shares a Chief Executive and several Directors with Peterborough City Council. Governance arrangements for sharing staff and services across partners continue to evolve into 2018/19, and the Council is planning to bring forward further integrated and shared service opportunities with Peterborough, in order to drive down costs, increase resilience and improve outcomes for residents.

CONCLUSION

Based on the work that has been completed, assurance can be taken that the governance arrangements at Cambridgeshire County Council are fit for purpose.

ANNUAL GOVERNANCE STATEMENT

Cambridgeshire County Council is committed to ensuring the implementation of all actions that are planned to strengthen the organisation's governance arrangements. Implementation of these actions will be monitored through the next annual review.

CHAIRMAN OF GENERAL PURPOSES COMMITTEE AND CHIEF EXECUTIVE STATEMENT

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Accounts Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Councillor Steve Count
Chairman of the General Purposes Committee

Gillian Beasley
Chief Executive

Councillor Michael Shellens
Chairman of the Audit and Accounts Committee

June 2018