

# Public Document Pack



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PUBLIC

To: Members of Audit Committee

Wednesday, 12 June 2019

Dear Councillor,

Please attend a meeting of the **Audit Committee** to be held at **2.15 pm** on **Thursday, 20 June 2019** in Committee Room 2, County Hall, Matlock, Derbyshire DE4 3AG, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in cursive script that reads 'Janie Berry'.

**JANIE BERRY**  
**Director of Legal and Democratic Services**

## **AGENDA**

### **Part I - NON-EXEMPT ITEMS**

1. Apologies for Absence  
To receive apologies for absence (if any)
2. Declarations of Members and Officers' Interests  
To receive declarations of interest (if any)
3. Minutes (Pages 1 - 6)

To confirm the non-exempt minutes of the meeting of the Audit Committee held on 27 March 2019

4. To consider the report of the Director of Finance and ICT on the Pre-Audit Statement of Accounts 2018-19 (Pages 7 - 214)

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**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 27 March 2019 at County Hall, Matlock

**PRESENT**

Councillor A Griffiths (in the Chair)

Councillors N Barker, S Brittain, and L M Chilton.

Officers in attendance – D Ashcroft, J Berry, C Hardman, P Spencer, W Sutton, and J Pressley and M Surridge (representing Mazars).

Apologies for absence were submitted on behalf of Councillors K S Athwal, P Murray and P Handford.

**12/19** **MINUTES RESOLVED** that the minutes of the meeting held on 27 February 2019 be confirmed as a correct record and signed by the Chairman.

**13/19** **TERMS OF REFERENCE** The current terms of reference for the committee were outlined. They remained unchanged for at least ten years and did not fully reflect the business undertaken by the committee.

A revised terms of reference had been drafted which better reflected the varied and wide-ranging brief of the committee. The revision had also considered the Chartered Institute of Public Finance publication Audit Committees: Practical Guidance for Local Authorities and Police. Members were asked to consider the revised terms of reference and recommend to Full Council for approval.

**RESOLVED** to approve the new terms of reference as set out in the report.

**14/19** **NATIONAL FRAUD INITIATIVE** The Cabinet Office are responsible for organising and co-ordinating the NFI process. NFI is a national data matching exercise which had enabled participating organisations to prevent and detect instances of fraud and error totalling in excess of £300 million between April 2016 and March 2018. This was a record for NFI in any reporting period and brought cumulative outcomes to a total value of £1.69 billion since the inception of NFI in 1996.

Approximately 1,200 participating organisations from both the public and private sectors provided data for the NFI which currently takes place every two years. The data matching process included comparison of data sets including payroll and benefit records against other records held by the same or another

body in order to establish a match. Where such matches arose these instances were investigated in order to identify potential fraudulent or erroneous claims and payments.

In order to inform both Members, staff and pensioners of the Council's participation in the NFI exercise fair processing notices were included in the pay slips for September 2018. Pensioners were notified of NFI by the inclusion of a pay slip message in May 2018. The results of the matching exercise arising from the Authority's data being submitted to the Cabinet Office in October 2018 were made available from 31 January 2019.

Audit Services is the central coordinator for the data matches received from the Cabinet Office and ensures matches are investigated, liaising as required with Departments within the Council and other authorities. Audit Services also maintain the web based application provided by the Cabinet Office which tracks progress on matches reported.

The initial 2018-19 NFI data matching return for the Council identified a total of 6,174 matches over 22 separate reports which included matching of the Council's data in respect of pensions, payroll, blue badge, concessionary travel, accounts payable, personal budgets and private residential care homes records with that of other participants' data, including housing benefits claimants and Department for Work and Pensions deceased persons.

**RESOLVED** to note the progress made by the Council in respect of the NFI 2018-19 exercise.

**15/19**      **INTERNAL AUDIT PLAN 2019-20**      The Audit Plan was designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services would also examine risk management frameworks, control and governance arrangements.

The Audit Plan had been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with Strategic Directors and Directors, including the Strategic Director of Commissioning, Communities and Policy (Head of Paid Service), Director of Finance & ICT (Section 151 Officer) and the Director of Legal Services (Monitoring Officer). As part of this process Audit projects had been identified which would be developed specifically to address significant Corporate and Departmental risks and build on those areas where frauds/control weaknesses had previously been identified.

In common with previous years the Audit Plan would be continually reviewed to ensure that it remained aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. Any amendments would be identified through Audit Services' ongoing liaison and discussions with the Audit Committee, Corporate Management Team, Strategic Directors, Directors and Senior Managers. Progress against the approved Audit Plan would be monitored and regularly reported to the Audit Committee.

The Audit Plan for 2019-20 was based on a staffing structure which provided for the deployment of 2,684 days. Members were aware of the staffing challenges which Audit Services had faced throughout the past year and which still continued. Consequently resources available to deliver the approved Audit Plan for 2018-19 had been reduced, and those projects which would not be completed during the year had been considered for inclusion in the proposed Audit Plan for 2019-20 in accordance with the Internal Audit Strategy. Several assumptions had been made which had been incorporated into the estimate of resources available to deliver the proposed Audit Plan for 2019-20. The Unit was committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

Mazars acted as the Council's External Auditors and Audit Services would work with them in accordance with the agreed External and Internal Audit Protocol.

The Audit Services' Plan was attached and detailed the Audit Services' coverage for all Departments and the Corporate Authority, it also identified the perceived level of risk, the resource to be employed and the expected outcomes of Audit work. Timetabling of the individual projects would be agreed with Strategic Directors, Directors and Senior Management on an ongoing basis throughout the year, and this would be informed by the findings and emerging initiatives identified.

**RESOLVED** to approve the Audit Services' Plan for 2019-20.

**16/19**      **EXTERNAL AND INTERNAL AUDIT PROTOCOL** The objectives of the Protocol between Mazars and Audit Services were to:-

- provide clarity to the Audit Committee regarding the roles and objectives of internal and external audit;
- provide a framework which would optimise the benefits of audit to the Council;
- promote an effective working relationship between Audit Services and Mazars whilst enabling each to deliver their respective responsibilities.

The main areas of co-operation between Audit Services and Mazars centred on the external auditor's responsibility to:-

- satisfy themselves that the accounts complied with statutory requirements;
- satisfy themselves that proper practices had been observed in compiling the accounts;
- express an opinion on the statement of accounts.

Mazars' approach to these requirements was to identify and test the overall high-level controls at the interim audit and undertake substantive testing of the Council's year-end statements. The findings from Audit Services' work on key financial systems would be used to inform Mazars' risk assessment and develop appropriate tests.

As part of their audit, Mazars would assess the risk of fraud and consider fraud risk factors in the planning of their audit. Audit Services ensured that a risk based approach was adopted to the audit of the Council's systems of internal control and pay due regard to the risk of fraud and corruption as part of this risk based approach. Audit Services also had a responsibility to undertake special investigations in respect of all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities.

Quarterly meetings would be held between the Assistant Director of Finance (Audit) and the Mazars Director or Manager and were likely to include:-

- update against Audit Services and Mazars plans;
- matters for the Audit Committee;
- confirmation of reports finalised;
- significant concerns about financial systems or the financial performance of the Council;
- details of special investigations;
- emerging risk areas;
- other issues, for example Audit Services' involvement in system development or project work;

The Protocol would be subject to review on an annual basis.

**RESOLVED** to note the External and Internal Audit Protocol which would be operated.

**17/19      AUDIT STRATEGY MEMORANDUM – DERBYSHIRE COUNTY COUNCIL AND DERBYSHIRE PENSION FUND** Mark Surrige from Mazars attended the meeting to present Members with the Audit Strategy Memorandum for the County Council and the Derbyshire Pension Fund for the year ending 31

March 2019. The purpose of the document was to summarise their audit approach, highlight significant audit risks and areas of key judgements.

The document described how Mazars would deliver their audit work for the Authority and identified any key risks for the financial statements audit and Value for Money arrangements conclusion. The risk assessment for the financial statements audit had identified the following significant risks:-

- Valuation of property, plant and equipment, investment properties and assets held for sale; and
- Valuation of net defined benefit liability.

It was reported that, in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. For the 2018-19 financial year Mazars had not identified any significant risks to their VfM conclusion. However, one specific matter had been identified which would need to be kept under close review:

- Financial sustainability – the Council continued to face financial pressure in the coming years and the Council kept updating its medium term financial plan (MTFP) to meet these pressures.

**RESOLVED** to note the Audit Strategy Memorandum for Derbyshire County Council and the Derbyshire Pension Fund.

**18/19**      **EXTERNAL AUDITOR REPORTS** There was nothing to report on this occasion.

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**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****20 June 2019****Report of the Director of Finance & ICT****PRE-AUDIT STATEMENT OF ACCOUNTS 2018-19****1 Purpose of the Report**

To present the pre-audit Statement of Accounts 2018-19 to the Audit Committee and inform the Audit Committee of an adjustment to the pre-audit accounts and a potential further adjustment in respect of the Council's share of pension fund net liabilities in its capacity as a participating employer.

**2 Information and Analysis**

The Accounts and Audit Regulations 2015 require the Director of Finance & ICT to certify the pre-audit Statement of Accounts by 31 May and the Audit Committee to approve the post-audit version by 31 July.

The pre-audit Statement of Accounts were submitted to the Council's external auditors, Mazars, on 31 May 2019.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council's accounts for the year ended 31 March 2019 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) were made available for public inspection from 1 June 2019 to 12 July 2019, Monday to Friday.

To date, one query has been received, in relation to two grants awarded under the Community Priorities Programme (CPP). The enquirer visited the Council to inspect CPP Cabinet papers and grant application forms and was interested in the grant approval and assurance process.

The core financial statements in the Statement of Accounts are:

- Comprehensive Income and Expenditure Statement (CIES)
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Pension Fund Accounts

- Annual Governance Statement

To date, one adjustment has been made to the core financial statements presented in the pre-audit Statement of Accounts. Estimation of the Council's net liability to pay pensions depends on several complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, pending cases which could affect the level of future benefits and expected returns on Pension Fund investments. The Council has engaged Hymans Robertson LLP as its Consulting Actuary (Actuary) to provide expert advice about the assumptions to be applied to the Derbyshire Pension Fund (Fund). The effect of changes in these estimates on the net pension liability of the Council are reviewed on an ongoing basis.

In April 2019, the Actuary provided the Council, as a participating employer in the Fund, a report of the Council's share of the Fund's assets and liabilities, for inclusion in the pre-audit Statement of Accounts. In accordance with standard practice, the Fund's asset values in this report were based on asset returns at 31 March 2019, projected by the Actuary from the position at December 2018. The Council understands that the actuary uses very broad categories of assets when projecting asset returns which do not always match the Fund's specific allocations. Furthermore, given the high level of uncertainty this year about the implications of Britain leaving the European Union and its impact on investment returns, once actual year-end investment returns for the Derbyshire Pension Fund were received from the Fund's external performance evaluation provider, the Council requested an updated report from Actuary. The value of the Council's share of Fund assets decreased in the second report by £31.662m, which was in excess of Mazars' 'performance materiality' and so the Council has adjusted for the amount in the post-audit Statement of Accounts.

The external audit is currently underway. During audit discussions, Mazars has informed the Council that one of the four actuaries of public sector bodies is including allowances in its assessment of pension fund liabilities for two cases, 'the McCloud judgement' and 'GMP equalisation' and another is including an allowance for GMP equalisation only. The Council referred to these two cases in Note 5 of the Statement of Accounts, Assumptions Made and Other Estimation Uncertainty. With the Government awaiting news of its right to an appeal on the McCloud judgement, the Actuary did not make any allowance for potential outcomes of this judgement in its estimation of the net liability to pay pensions reflected in the Statement of Accounts, as the Actuary considered that it was too early to know what the likely impact may be on members' benefits. Any GMP equalisation would be included as a 'past service cost' in the CIES. The Actuary did not make any allowance for potential outcomes of this judgement in its estimation of the net liability to pay pensions reflected in the Statement of Accounts, as this should only follow a 'trigger event' in respect of a particular pension scheme, and in the Actuary's

view a 'trigger event' has yet to occur in respect of the Local Government Pension Scheme.

However, a meeting was held between the four auditors of public sector bodies on 6 June 2019, to decide whether, in their view, the actuaries of all bodies should be requested to provide further reports incorporating estimates of the effect of these issues on net pension liabilities, as one actuary had already done this. Mazars held a technical conference call amongst its partners on 10 June 2019 to reflect on this meeting and, following this meeting, has informed the Council that it should request a third report from Hymans, to include allowances for these cases. The turnaround time for this report is unknown.

Current broad estimates are that inclusion of an allowance for these two claims could result in an increase in the Council's share of Fund liabilities of around £18m (around 0.3% of gross Fund liabilities for each case), which would be just below the level of Mazars' performance materiality. It will not be known whether an adjustment to the Council's accounts will be required for these cases until the Council receives the third Actuary's report confirming its assessment of additional liabilities and a comparison is made to Mazars' performance materiality. If the increase in liabilities is above performance materiality an adjustment will be required. If it is below, then the Council will discuss the need for an adjustment with Mazars. An update on this matter will be provided at the meeting.

Approval of the post-audit Statement of Accounts will be sought at the Audit Committee meeting on 23 July 2019. Should further adjustments be identified during the course of the continuing external audit, these will be included in the report presented at that meeting.

The approved Statement of Accounts will be reported to full Council in September. The Pension Fund Accounts will be reported to the Pensions and Investment Committee in August.

A copy of the pre-audit Statement of Accounts is appended to this report at Appendix One. The included Annual Governance Statement is in draft form and will be presented by Audit Services at the Audit Committee meeting on 23 July 2019.

### **3 Financial Considerations**

Details are set out in the report and appendix.

### **4 Legal Considerations**

The audited Statement of Accounts must be approved by the Audit Committee by 31 July in accordance with the Accounts and Audit Regulations 2015.

**5 Other Considerations**

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

**6 Background Papers**

Papers held in Technical Section, Finance & ICT Division, Room 137.

**7 Officer's Recommendation**

That Audit Committee considers the pre-audit Statement of Accounts 2018-19 and the adjustment and potential adjustment in respect of the Council's share of Fund employer net liabilities, prior to approval of the post-audit accounts at the Audit Committee meeting on 23 July 2019.

PETER HANDFORD

Director of Finance & ICT



# **Pre-Audit Statement of Accounts 2018-19**

**Peter Handford BA(Hons) PGCert FCPFA  
Director of Finance & ICT**

<b>Version History</b>			
<b>Version</b>	<b>Date</b>	<b>Detail</b>	<b>Author</b>
1.0	31.05.19	Pre-audit accounts for signature	E Scriven S Holmes

**This document has been prepared using the following ISO27001:2013 standard controls as reference:**

<b>ISO Control</b>	<b>Description</b>
A.8.2	Information classification
A.7.2.2	Information security awareness, education and training
A.18.1.1	Identification of applicable legislation and contractual requirements
A.18.1.3	Protection of records
A.18.1.4	Privacy and protection of personally identifiable information

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# NARRATIVE REPORT

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## Introduction

This Statement of Accounts presents the overall financial position of the Council for the year ended 31 March 2019. It has been produced in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code), based on International Financial Reporting Standards (IFRS). IFRS are made up of a combination of many individual accounting standards.

This document also includes information relating to the Derbyshire Pension Fund, which the Council administers on behalf of its own staff, other local authorities and other admitted bodies.

## Basis of Preparation and Presentation

When preparing the accounts, an authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the “true and fair” view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

Information is material if omitting it, or misstating it, could influence decisions that users make on the basis of financial information about a specific authority.

The Accounting Policies of the Council have been prepared in accordance with IFRS, as adopted by the Code. Where there is no specific guidance in the Code, the Council has developed its own Accounting Policies, which are aimed at creating information which is relevant to the decision making needs of users and reliable, in that the financial statements:

- represent fairly the financial position, financial performance and cash flows of the entity;
- reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- are neutral i.e. free from bias;
- are prudent; and
- are complete in all material respects.

The Council’s Accounting Policies are included in Appendix One of these accounts. They outline how the Council should account for all income, expenditure, assets and liabilities held and incurred during the 2018-19 financial year.

The Accounting Policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the Council’s accounts. The Accounting Policies of the Council, as far as possible, have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable.



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# NARRATIVE REPORT

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## Explanation of the Accounting Statements which follow

- Comprehensive Income and Expenditure Statement (CIES) - This shows the cost of providing services in accordance with generally accepted accounting practices.
- Balance Sheet (BS) - This shows the value of all assets and liabilities. Reserves are matched against net assets and liabilities.
- Cash Flow Statement (CFS) – This statement shows the changes in cash and cash equivalents of the Council.
- Movement in Reserves (MiRS) – This shows the movement on the different reserves held, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and ‘unusable’ reserves.
- Notes to the Accounts – Not a statement, however they provide supplementary information.

## Performance

Local authorities can present the CIES based on how an authority is organised and funded. The Council has presented its CIES on the basis of how it reports its management accounts during the financial year, which is by Cabinet Member Portfolio.

The Council is structured into four departments but reports through seven Cabinet Member Portfolios. These portfolios are Adult Care, Council Services, Economic Development and Regeneration, Health and Communities, Highways, Transport and Infrastructure, Strategic Leadership, Culture and Tourism and Young People.

## Revenue Expenditure

The Council set its net budget requirement for 2018-19 on 7 February 2018 and originally planned to spend £503.185m, with funding coming in the form of Government non-ring-fenced grants of £83.420m, Council Tax of £314.135m, business rates collected locally of £94.173m and the use of Earmarked Reserves of £11.457m.

The Council has spent £475.062m, against a final net budget of £488.120m. The decrease in net budget is because of additional net transfers to Earmarked and General Reserves of £44m, additional grant income of £12m (including Winter Pressures Grant £3.627m, Independent Living Fund Grant £2.614m, Adult Care Support Grant £2.267m, Levy Fund Surplus £1.704m) and additional business rates income, referred to below, of £17m.

The Council participated in a 2018-19 business rates pilot, along with Derbyshire District and Borough Councils, the Derbyshire Fire and Rescue Service and Derby City Council, following a successful bid to become one of ten pilots. The pilot has generated additional one-off income in 2018-19 for the county of Derbyshire, over and above the business rates income received through the local government finance settlement.

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The Council's share of the additional business rates one-off income in 2018-19 is £16.481m, which has been transferred to earmarked reserves. Of this income transferred to earmarked reserves, £4.889m is being held in respect of the Council's contribution to the D2 Business Rates Retention Programme for strategic investment, to support economic regeneration across the county and in Derby City, £6.876m will be used in managing the Council's budget, supporting services including children's social care, waste and recycling, promoting tourism, supporting community safety and 'safe and well' checks and £4.716m will be held in a business rates pool earmarked reserve, the use of which is still to be determined.

	Final Net Budget £m	Actual £m	Outturn £m
<b>Controllable:</b>			
Adult Care	240.457	230.974	(9.483)
Council Services	44.381	43.746	(0.635)
Economic Development and Regeneration	0.868	0.682	(0.186)
Health and Communities	1.933	1.652	(0.281)
Highways, Transport and Infrastructure	77.974	76.781	(1.193)
Strategic Leadership, Culture and Tourism	13.276	12.852	(0.424)
Young People	100.337	104.557	4.220
<b>Portfolio Outturn</b>	<b>479.226</b>	<b>471.244</b>	<b>(7.982)</b>
Risk Management	2.499	0.000	(2.499)
Debt Charges	28.505	23.954	(4.551)
Interest Receivable	(5.095)	(5.540)	(0.445)
Levies and Precepts	0.311	0.329	0.018
Corporate Adjustments	(17.326)	(14.925)	2.401
<b>Total Outturn Position</b>	<b>488.120</b>	<b>475.062</b>	<b>(13.058)</b>
<b>Transfers to / from reserves:</b>			
RCCO - Capital Funded from Revenue	0.000	0.000	0.000
Transfer to Earmarked Reserves	127.110	127.110	0.000
Transfer from Earmarked Reserves	(81.232)	(81.232)	0.000
Use of General Reserves	(21.788)	(21.788)	0.000
Contribution into General Reserve	8.264	21.322	13.058
	<b>520.474</b>	<b>520.474</b>	<b>0.000</b>
<b>Financed By:</b>			
Council Tax	(314.135)	(314.135)	0.000
Revenue Support Grant	0.000	0.000	0.000
Business Rates	(100.109)	(100.109)	0.000
Business Rates Top-up	(43.044)	(43.044)	0.000
New Homes Bonus	(2.058)	(2.058)	0.000
Other General Revenue Grants	(50.624)	(50.624)	0.000
PFI Grant	(10.504)	(10.504)	0.000
	<b>(520.474)</b>	<b>(520.474)</b>	<b>0.000</b>

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Departments have continued to look for ways of working more efficiently and effectively to cut costs or generate additional income and set aside cash for future years when further budget reductions will be needed.

There continues to be pressures on social care, which has resulted in a significant overspend in the Young People portfolio. The overspend in Young People was, in the main, driven by increased demand for Social Care support, such as placements for children in care, alternative arrangements for children unable to live with parents and increased numbers of children whose safety and well-being needs to be monitored through child protection plans and associated social worker support.

Underspends will be utilised to manage budgets over the medium term. Any decision on the use of underspends in this way are made by Cabinet.

The underspend in Adult Care was, in the main, due to additional funding made available to expand services around hospital discharge. The underspend in the Highways, Transport and Infrastructure portfolio has partly resulted from waste management expenditure being less than expected, mainly due to lower waste tonnages and increased electricity revenue from the New Waste Treatment Facility (NWTF), and also because of the receipt of more income from planning application fees. The extent of the underspend was reduced by winter maintenance costs being higher than anticipated. There were underspends in the other portfolio areas, mainly due to staffing reductions and vacancy control.

There have also been underspends on Debt Charges and Risk Management. The underspend on the Debt Charges budget is mainly due to delays in the implementation of the capital programme. The underspend on the Risk Management budget relates to additional funding received in-year.

There is an overall Council underspend of £13.058m, which results in an increase to the Council's General Reserve. The balance on the General Reserve is £64.570m, however there are commitments held against the balance, details of which were reported to Cabinet on 20 September 2018 and will be updated as part of the Outturn Report for 2018-19. The delivery of the Council's Five Year Financial Plan (FYFP) is heavily dependent on an adequate level of General Reserve, a 2018-19 underspend was anticipated as part of the decisions taken by Council at its budget setting meeting in February 2019. The need to maintain an adequate, risk assessed level of reserves has been a key part of the Council's success, in both maintaining its financial standing and continuing to deliver high quality services.

The table on page 4 summarises the Council's outturn position, highlighting the Cabinet Member Portfolio and Corporate underspends. The £4.220m overspend on the Young People portfolio has been charged to the Council's General Reserve in 2018-19, along with the underspends credited from the other portfolios.

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Spending on schools is funded by Dedicated Schools Grant (DSG) from Government. The Council received £380.805m in 2018-19. The table on page 4 shows the positions net of the impact of this grant, other ring fenced grants and income from other third parties and their associated spend. Note 40 sets out the DSG grant in more detail.

The Council also has responsibility for Public Health funding. A total of £40.548m was received in 2018-19 in the form of a ring-fenced grant from Government to pay for Public Health services. There was an underspend against the balance of the grant of £2.790m.

The Comprehensive Income and Expenditure Statement shows a deficit on provision of services of £249.476m. This is different to the outturn position shown in the previous table as it includes both cash transactions and non-cash items, such as depreciation. The deficit, in the main, relates to the loss on disposal of non-current assets, which is referred to in more detail in Note 6.

### Capital Expenditure

In 2018-19 the Council's capital expenditure decreased by £4.696m. The altered funding profile has resulted from a change in the Council's approach to allocating funding to capital projects.

	2017-18 £m	2018-19 £m
<b>Capital Expenditure</b>	<b>106.348</b>	<b>101.652</b>
<b>Funded by:</b>		
Grants and Contributions	91.700	54.915
Loans	2.381	35.805
Revenue Contributions	10.869	-
Capital Receipts	1.398	10.932
<b>Total</b>	<b>106.348</b>	<b>101.652</b>

The Council has previously funded some capital projects using revenue contributions. In 2018-19 the decision was taken not to do this, leading to an increase in the use of available capital receipts and borrowing to replace the revenue contributions no longer being used. The use of grants and contributions has decreased in 2018-19. Expenditure on the Crescent at Buxton in 2018-19 has mostly been funded from borrowing, whereas in previous years, funding has been from an external grant, which has now been mostly utilised. Also, a substantial proportion of capital receipts have been used towards the loan for the Crescent at Buxton, which will be repaid, with interest, in future years.

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## NARRATIVE REPORT

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### Assets and Liabilities

The value of Property, Plant and Equipment Assets (PPE) has decreased by £326.016m from the previous year. The two main reasons for this are an increase in the number of schools that converted to academies during the year, referred to in Note 6 and a change in the Council's 2018-19 estimation methodology in respect of the valuation of its portfolio of schools, referred to in Note 5. This has also contributed to a reduction in the Council's Unusable Reserves.

Current and Non-Current Investments have increased by £17.594m and Cash and Cash Equivalents have decreased by £3.592m from the previous year.

Current and Non-Current Debtors have increased by £22.270m.

Current and Non-Current Borrowing have decreased by £15.125m, which is as a result of a long-term plan over the past five years to reduce the borrowing required to finance capital expenditure. The Council has not entered into any long-term debt since September 2010. The Council has one Lender Option Borrower Option (LOBO) loan, with a nominal value of £5 million, remaining.

Other Non-Current Liabilities have increased by £187.567m. This increase has arisen because of a £190.443m increase in the valuation of the Local Government Pension Scheme and Teachers Pension Scheme net liabilities. This has contributed to a reduction in the Council's Unusable Reserves.

### Cashflow

The Council's cashflow in 2018-19 does not highlight any significant changes. Interest payable and receivable were at similar levels to 2017-18.

It is expected that the Council will cease to receive Revenue Support Grant from 2020-21 at the latest. In the Autumn of 2017, the Council, along with ten other local authorities in Derbyshire, applied to become a Business Rates Retention Pilot in 2018-19. The bid was successful and as a result, the Council did not receive any Revenue Support Grant in 2018-19. The Pilot lasted for one year only.

Council Tax was increased by 4.99% in 2018-19 and by 3.99% in 2019-20. No Council Tax increase is included in the Council's FYFP in 2020-21 and 2021-22. A 2% increase is forecast in 2022-23 and 2023-24.

The Better Care Fund (BCF) allocations and additional allocations of improved BCF will contribute to supporting Adult Care services.

In the event that more schools convert to academy status, there will be a loss of funding through the Dedicated Schools Grant matched by a reduction in expenditure on schools, however it could result in a potential loss of income from services the Council trades with schools.

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## NARRATIVE REPORT

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Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council will monitor this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019-20, with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Council may borrow short-term to cover cash flow shortages where it is advantageous to do so.

### **Provisions and Contingencies**

Movements in provisions and contingencies are disclosed in the Notes to the Accounts. There have been no material changes to policy or to amounts during the year.

### **Reserves**

The Council's total Usable Reserves, which include General and Earmarked Revenue Reserves, have increased by £59.238m, to £366.732m.

The General Reserve balance has decreased by £0.463m, to £64.570m at 31 March 2019. There are commitments against this balance that are set out in the Revenue Outturn Report 2018-19.

During 2018-19, the Earmarked Reserves balance has increased by £45.880m, to £233.453m. Earmarked Reserves are held for specific purposes and are regularly reviewed by Cabinet as part of the budget monitoring cycle. A more detailed analysis is available in Note 31 to the Accounts.

The Unapplied Capital Grants Reserve has increased by £19.379m, to £56.285m at 31 March 2019. This reserve holds the grants and contributions received towards capital projects but which have yet to be applied to meet capital expenditure. The majority of the increase in this reserve is because of an increase in "S106 grants" that have been received but have not yet been allocated to a project. S106 grants are contributions received from developers towards the costs of providing community and social infrastructure, the need for which has arisen as a result of a new development taking place.

The Capital Receipts Reserve has decreased by £5.554m, to £12.433m at 31 March 2019. This is money set aside to meet capital expenditure. The majority of this reserve is committed towards identified capital projects such as the Crescent at Buxton, Glossopdale School and Bennerley School.

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## NARRATIVE REPORT

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After adjusting for non-cash items, the Council's General and Earmarked Reserves remain at robust, risk assessed levels. These levels are key to the delivery of the Council's objectives over the medium term as a means of helping to manage significant potential liabilities and the general reduction in resources. All such risks are regularly reviewed and appear alongside mitigating actions, on the Council's Strategic and Departmental Risk Registers. The Council formally reviews its reserves at least annually, as set out in the Council's Reserves Policy. The last review was reported to Cabinet in September 2018.

### **Pensions Liability**

Under International Accounting Standard 19 (IAS19), the Council is required to show the total future costs of pension liabilities for the Local Government Pension Scheme. This is a notional figure, as the Council's budget is constructed on the basis of actual contributions payable.

The IAS19 notional cost of the LGPS scheme for 2018-19 is £110.358m and for Teachers Pensions is £1.697m. The actual contributions made for the year were £54.543m and £4.506m respectively, resulting in a net adjustment to the revenue position of £53.006m. In addition, there were actuarial losses on both schemes, amounting to £135.007m and £2.430m respectively, resulting in an increase of £190.443m in the total pensions liability of the Council, to £889.279m at 31 March 2019. The pensions liability is offset by a matching notional reserve, ensuring there is no impact on the level of Council Tax.

The debit balance on the pensions reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The Funding Strategy adopted by the Pension Fund will ensure that funding will have been set aside by the time the benefits come to be paid.

### **Events after the balance sheet date**

#### **New Waste Treatment Facility**

The Council and Derby City Council are engaged in a project to build a New Waste Treatment Facility (NWTF) in Sinfin, Derby, to deal with waste that residents in Derby and Derbyshire do not recycle. The facility, which was due to open in 2017, is being built on the councils' behalf by Resource Recovery Solutions (Derbyshire) Ltd (RRS), which is a partnership between national construction firm Interserve, which is also building the plant, and waste management company Renewi. However, RRS has not to date been able to resolve ongoing issues at the plant to allow it to pass the certified performance tests needed to bring it into full service.

On 10 April 2019 the councils issued a formal notice to the NWTF project's funders, to take action under the contract, to secure the future of the facility.

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## NARRATIVE REPORT

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Funding for the facility is being loaned to RRS by the UK Green Infrastructure Platform and three international banks: Sumitomo Mitsui Banking Corporation and Shinsei Bank, from Japan and Bayerische Landesbank, from Germany.

In light of the significant uncertainty regarding the likely actions of all the parties involved with the project, the councils are planning on the basis of all scenarios.

There were no other significant events between the balance sheet date and the approval of these financial statements which would require disclosure or adjustment of the statements.

### **Organisation and Governance**

The Council is composed of 64 Elected Members who are democratically accountable to the residents of their electoral division. Members follow a Code of Conduct, to ensure high standards in the way they undertake their duties. The Cabinet consists of the Leader of the Council and six Members. The Cabinet is responsible for guiding the Council in the formulation of the corporate plan of objectives and key priorities, which is referred to in more detail, under Strategy and Resource Allocation, below. Within the policy framework, budgets and major plans are approved by the full Council and the Cabinet has executive responsibility for the implementation of the Council's key goals and objectives.

The Standards Committee promotes and maintains high standards, assists Members in observing the Code of Conduct and advises the Council on matters related to the Code of Conduct. The Council also operates four Improvement and Scrutiny Committees, which support the work of the Cabinet and the Council as a whole.

All Members meet together as the Council. Meetings are generally open for the public to attend, except where confidential matters are being discussed.

More information on the Council's Governance Framework is included in the Council's Annual Governance Statement, which is included at the end of these accounts.

### **Local Enterprise Partnership**

D2N2 is the Local Enterprise Partnership (LEP) for Derby, Derbyshire, Nottingham and Nottinghamshire. It plays a central role in deciding local economic priorities and undertaking activities to drive economic growth and create local jobs. It is a locally owned partnership between the public and private sectors. It is managed by a Board made up of the constituent councils, including Derbyshire County Council and private sector representatives. The LEP's key role is to decide local economic priorities and undertake activities that drive economic growth and deliver local jobs within Derbyshire and Nottinghamshire.



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## NARRATIVE REPORT

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Due to the legal status of the LEP, it cannot hold funds so requires a public sector organisation to manage and co-ordinate the finances on its behalf, effectively acting as the Accountable Body for a specific funding stream. The Council made a successful bid to be the Accountable Body for the LEP's Local Growth Deal grant with effect from 1 April 2015. Following the announcement of Local Growth Fund 3 in March 2017, the grant allocation will be £250.7m over the six years upto 2020-21. During 2018-19 the grant has been allocated to a further four projects in the Derbyshire/ Nottinghamshire region, after successful grant bids were received and approved by the Investment and Infrastructure Board.

The Local Growth Fund income and expenditure is accounted and administered independently from the Council's accounts and therefore, do not form part of the main statements which appear later in this Statement of Accounts. This is in accordance with the principles set out in the Local Authority Accounting Code of Practice where the Council is acting as an intermediary and is therefore following the agent principle as set out in section 2.6.2.1 of the Code.

As part of its accountable body role, the Council administers a grant of £0.124m, from the Careers and Enterprise Company in respect of the Enterprise Adviser Network, which has been used to meet the costs of the Enterprise co-ordinators. Both this grant and the Local Growth Fund grant are identified separately on the Council's financial ledger and have met the requirements of the grant conditions.

From 1 April 2019, Derbyshire County Council will be the Single Accountable Body to the D2N2 LEP, taking on additional funds such as the Growing Places Fund and Building Foundations for Growth.

### **Derbyshire Developments Limited**

In 2016-17 the Council began to operate a development company with the following aims and objectives:

- To generate a source of revenue income and capital investment return.
- To make effective use of the Council's land.
- To create employment opportunities within Derbyshire, including for apprentices and the Council's care leavers.
- To maintain ethical and environmental standards in specification, development and construction of properties.

During 2018-19 Derbyshire Developments Limited's total expenditure was £0.078m, with income of less than £0.001m, therefore, as in 2016-17 and 2017-18, it is considered that Group Accounts are not required. However, the Company will submit audited accounts to Companies House in accordance with the Companies Act 2006.

The company currently has no activity within it, as its previous activities are being delivered by the Council to achieve the same aims and objectives. The opportunity exists, should the Council decide to do so, to refocus the Company's activities at some point in the future.

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# NARRATIVE REPORT

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## Strategy and Resource Allocation

The Council Plan sets out the Council's strategic direction, its ambitions and priorities, structured around four key outcomes for Derbyshire, which the Council is working towards with partners and local communities.

### Ambition

The Council is striving to be "an efficient and high performing council delivering high quality, value for money services".

### Outcomes

The Council wants Derbyshire to have:

- **Resilient and thriving communities** where local people work together, in new and dynamic ways with public services.
- **Happy, healthy people and families** with solid networks of support, who feel safe and in control of their personal circumstances and aspirations.
- **A strong, diverse and adaptable economy** which makes the most of Derbyshire's rich assets and provides meaningful employment opportunities for local people.
- **First class public services** which enhance the educational, cultural, physical and social environment of Derbyshire and make it a great place to live, visit and work.

### Priorities for 2018-19

These are the Council's priorities to improve outcomes:

- Work efficiently and effectively.
- Unlock economic growth and access to economic opportunities.
- Invest in employment and skills.
- Repair and improve the condition of Derbyshire roads.
- Improve accessibility in vulnerable and rural communities.
- Improve social care.
- Transform services for people with learning disabilities.
- Keep children and adults safe.
- Be a good corporate parent for children in our care.
- Help children and young people get the best start.
- Encourage healthy lifestyles and reduce future health and care needs.
- Champion local communities.
- Support local library services.
- Protect local people and communities.
- Promote Derbyshire as a global cultural and tourist destination.
- Protect and enhance the natural environment.

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# NARRATIVE REPORT

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## Flagship Projects

A number of vital cross cutting projects will be progressed over the life of the Council Plan:

- Explore the use of **new delivery and commissioning models** across the Council to achieve service priorities.
- Restart the Council's **£30 million Care Programme** to provide new modern care homes for the county's older people.
- Work with communities to secure better outcomes for less by developing the **thriving communities approach**.
- Work with partners to deliver the **One Public Estate Programme** making more efficient use of the Council's properties and assets.
- **Enable development**, including the building of new homes on surplus Council land, securing income to invest in other Council services.

## Progress and Performance:

- Major regeneration and inward investment programmes boosting economic growth. For example, Markham Vale is one of the most successful enterprise zones in the country, currently having brought 1,628 jobs to the local area, with a further 2,700 planned and over £130 million of private sector investment to date, against a target of £250m in total. The Council's focus on maximising the county's tourism offer is seeing expansion in the visitor economy.
- Reclamation of large scale, heavily contaminated, brownfield sites including: delivery of over £174m worth of clean up at The Avenue site which is now being actively developed for housing and employment and over £18m of clean up over 28 hectares at the former Coalite site, to deliver 1500 jobs over the next few years.
- Leading delivery of the HS2 East programme through Derbyshire, Nottinghamshire and Leicestershire, including: bringing forward an expanded HS2 station at Chesterfield and major inward investment to create the new HS2 hub station at Toton.
- A partnership focus on implementing overall systems change in health and social care is delivering results – for example the number of bed days lost to delayed transfers of care have reduced by 6,804 days in one year, a remarkable achievement for the local system despite increased demands, particularly during a challenging winter period.
- The Council is also delivering on its ambitions to provide new modern care homes for older people, beginning with a new care home in Cotmanhay.
- Derbyshire was the highest performing county council for public satisfaction with roads and pavements, placed first out of 31 county councils participating in the National Highways and Transportation survey in December 2017. Known road defects for the size of the county are very low (600 as at September 2018) and 89% of defects are repaired within target timescales. Derbyshire's roads are now safer than at any time since the early 1940s.

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## NARRATIVE REPORT

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- A continued low rate of children in care reflects successful joint working across the children's safeguarding system. Commitment to improving outcomes for children in care and a nationally recognised virtual school has enabled individual children in care to achieve good rates of progress, and there has been a sustained increase in the number of care leavers entering higher education since 2014. High proportions of care leavers live in suitable accommodation and the proportion in employment, education and training is just above English average.
- Access to services for rural areas has been protected with continued support for subsidised bus routes at £2.6 million per year. The £34 million Digital Derbyshire partnership programme is on track to bring faster broadband to 98% of Derbyshire homes and businesses by the end of 2018. 40% take up has been achieved, meaning Digital Derbyshire is one of the highest performing programmes in the country.
- Working with partners to provide advice and support to Rolls-Royce workers after the company announced it was to shed 4,600 jobs in the UK.
- Championing and supporting the hundreds of people in Ashbourne who experienced water shortages in Summer 2018 and leading the Local Resilience Forum to support Severn Trent Water in their response.
- Holding Derbyshire Community Care Group (CCG) to account through the Health Improvement and Scrutiny Committee for proposed cuts of £1.2 million that could affect 22 Derbyshire charities and community groups delivering services for many of the county's most vulnerable residents.
- Listening to communities' concerns regarding INEOS' proposals to explore shale gas in north east Derbyshire, holding two public enquiries and rejecting the application due to the impact on local roads and road safety, harm to the nature of the green belt and unacceptable night time noise.

### Outlook, Risks and Opportunities

#### Funding

In October 2016, the Council confirmed its acceptance of the Government's multi-year funding offer, announced in December 2015. The funding offer provides details of Government Grant allocations up to and including 2019-20. The intention is that these multi-year settlements provide funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners.

However, there is now growing uncertainty in the sector regarding the funding levels beyond this period. The Government had previously announced its intention to move to a 100% Business Rates Retention Scheme in 2019-20. The Government has confirmed that it has revised its aims and is pursuing a 75% business rates retention scheme by 2020-21 and eventually to 100%. Alongside this announcement, the Government published further consultations as part of its Fair Funding Review. The implementation date for the Review is 2020-21 and the work will be divided into three closely related strands which are relative needs, relative resources and transitional arrangements.

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## NARRATIVE REPORT

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As this period of consultation between local government and central government continues over the coming months, to establish a distribution methodology that is fit for purpose, local authorities are struggling to set medium term financial plans due to this element of uncertainty. The Council's FYFP is predicated on the basis that the funding to the Council is in its existing format of 50% Business Rates Retention, as it is difficult to predict the likely impact of the proposed changes to the scheme and the financial impact until further detailed information is provided by the Government.

The introduction of 75% Business Rates Retention is currently assumed to be fiscally neutral to the Council. To ensure that the reforms are fiscally neutral, local government will need to take on extra responsibilities and functions at the point that full localisation occurs, as currently, more is raised from business rates than spent locally. The Government will also need to take account of future events such as transfers of responsibility for functions between local authorities, mergers between local authorities and any other unforeseen events.

Although there continues to be a consistent rise in business rates growth in the county, a change in the economic life-cycle or a significant loss of business in the region will impact on the level of business rates income.

The Council's FYFP sets out plans to support the Adult Care budget over the medium term, through the Adult Social Care precept. The FYFP also assumes that the use of the Better Care Fund and the additional improved Better Care Fund allocations will support the base budget, through collaboration with clinical commissioning groups and that existing allocations of the improved Better Care Fund continue to be paid beyond 2019-20. If the funding ceases beyond 2019-20, local authorities will experience a 'cliff edge' funding effect that will significantly impact on the delivery of adult social care services.

### **Expenditure**

By 2023-24, the Council needs to have reduced expenditure by a further £63 million in real terms. This is in addition to a £271 million reduction the Council has already made to services since 2010. The Council continues to look at ways to save money and generate income, whilst trying to protect and deliver services suitable for the residents of Derbyshire.

Significant consultation and planning timeframes are required to achieve many of these savings. Delays in agreeing proposals could result in overspends by departments, which would then deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure.

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## NARRATIVE REPORT

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In many cases the cost savings proposals will be subject to consultation and equality analysis processes. No assumptions have been made as to the outcome of those consultations or the outcome of final decisions which have yet to be made. With regard to the savings proposals which have not yet been considered by Cabinet and, where appropriate, by individual Cabinet Members, the necessary consultation exercises will be undertaken and any equality implications will be assessed before final decisions are made. Throughout the process it will be essential to ensure that the Council continues to meet its statutory and contractual obligations.

There is a planned use of General and Earmarked Reserves from 2019-20 to 2023-24 in order to achieve a balanced budget.

### **Cost Pressures**

There continues to be an increased demand for services, leading to significant cost pressures in providing essential services such as social care, highways maintenance, public transport and waste.

The focus for support from Council resources is likely to shift towards Safeguarding Services for Children as the improved Better Care Fund and additional precept help to alleviate pressures in Adult Care.

The Council, along with other local authorities in the country, has expressed concern over the cost pressures associated with the provision of children's social care. Many local authorities and the Local Government Association have urged Government to provide additional funding for the service.

Recent analysis illustrates rising demand for children's services nationally, including:

- an increase of 116% in the number of early help assessments completed between 2013 and 2018, with a 78% increase in initial contacts in the last ten years and a 159% increase in the number of Section 47 enquiries in the same ten year period;
- an increase in the average spend for each Looked After Child from £33,078 in 2012 to £39,099 in 2016, this increase continues; and
- an increase in total spending on residential care for Looked After Children, from £0.99 billion in 2012 to £1.10 billion in 2016, with further pressures predicted.

These pressures have resulted in a number of authorities being left with little choice but to divert funding towards crisis intervention activities, rather than preventative services. The national picture is being reflected in Derbyshire, with substantial strain placed on the children's social care budget. The Children's Services budget overspent by £5.5 million in 2016-17, by £6.4m in 2017-18 and has overspent by £4.2m in 2018-19, despite local investment in children's social care services. Increased demand for services in Derbyshire is highlighted below:

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## NARRATIVE REPORT

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- Children subject to a child protection plan – in 2010-11, there were 554 children that were subject to a child protection plan in Derbyshire (a rate of 35 children per 10,000 population). By the end of 2015-16 this had risen to 738, being 48 children per 10,000 population. This is higher than the England rate of 43 per 10,000 population and higher than the rate of the Council's statistical neighbour benchmarking group, of 41 children per 10,000 population. Since 2015-16, numbers have increased, to an all-time high at the end of 2017-18 in excess of 900 children.
- Special Guardianship Orders (SGO) – the number of children subject to an order has increased year-on-year, from 141 in 2012-13 to 370 in 2016-17. The payments to SGO carers and Child Arrangement Order holders is in itself forecast to create a budget pressure in excess of £1 million during 2019-20.
- Children in Care – whilst the numbers of children in care decreased up to 2015-16, there has been a 20% increase in numbers since that time, with an increase of 130 children over a two year period. The cost of placements for children in care is forecast to create a £4 million budget pressure in 2019-20 for the Council.
- Children with additional needs – the number of children in Derbyshire schools with complex educational needs is estimated to have risen by approximately 30% since 2004. The proportion of pupils with statements or Education Health and Care Plans (3%) has increased since 2010-11 and is higher than averages for England and our statistical neighbour group, both of which have remained stable (2.8%). The proportion of pupils with Special Educational Needs (SEN) support has reduced since 2010-11 but at a slower rate than England and our statistical neighbour group.

The new Waste Treatment Facility is another possible cost pressure, which is referred to on page 9.

The Council's Senior Members and Officers have lobbied Derbyshire MP's regarding improving funding for the Council and have successfully obtained a future meeting with the Secretary of State for Housing, Communities and Local Government to further promote the need for funding reform.

### **Opportunities**

The Council is examining modern and innovative ways of providing services. At the moment, around 50% of Council expenditure is provided on the Council's behalf by the voluntary sector, parish councils, public-private partnerships, private contractors or charitable and community interest companies. The Council will be moving towards being an "Enterprising Council", looking at all types of delivery models in the future, including sharing or trading services with other councils. The role and shape of public services has changed dramatically and the Council faces significant challenges in providing the services local people want and need.

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## NARRATIVE REPORT

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Being an Enterprising Council means:

- value for money is at the heart of everything the Council does
- the Council is efficient and effective
- the Council focuses on getting the best results for Derbyshire's residents, whether by the Council delivering a service, or by using an external organisation – there is no one size fits all
- the Council has a bold, innovative and commercial mind-set
- the Council does things 'with' local people rather than 'to' them and values fairness, openness and partnership
- the Council is proud of Derbyshire and ambitious for its public services.

The Council is actively pursuing opportunities to work with other local authorities, including exploring a proposal to create a strategic alliance. This would focus on driving growth and prosperity in the East Midlands region through joint work on transport and other infrastructure, employment, skills and strategic planning. The alliance would involve councils from the four counties of Nottinghamshire, Derbyshire, Leicestershire and Lincolnshire, along with the cities of Derby, Leicester and Nottingham, the local enterprise partnerships and Chambers of Commerce and would ensure the East Midlands punches above its weight in supporting the wider aims of the Midlands Engine and Midlands Connect.

Peter Handford BA(Hons) PGCert FCPFA  
**Director of Finance & ICT**



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## **STATEMENT OF RESPONSIBILITIES**

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### **The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Director of Finance & ICT;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### **The Director of Finance & ICT's Responsibilities**

The Director of Finance & ICT is responsible for the preparation of the Council's Statement of Accounts, in accordance with the appropriate CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In preparing this Statement of Accounts, the Director of Finance & ICT has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code and the Regulations;
- kept proper accounting records which were up-to-date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- ensured that events after the balance sheet date have been considered;
- assessed the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future; and
- maintained such internal control as determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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## **AUTHORISATION OF ACCOUNTS FOR ISSUE**

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### **Certificate of Director of Finance & ICT**

I certify that the accounts give a true and fair view of the financial position of the Council at 31 March 2019 and of its income and expenditure for the year then ended.

Peter Handford BA(Hons) PGCert FCPFA  
Director of Finance & ICT  
31 May 2019

The Statement of Accounts will be approved by the Audit Committee following audit.

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		Note	2017-18			2018-19		
			Gross Exp £m	Gross Inc £m	Net Exp £m	Gross Exp £m	Gross Inc £m	Net Exp £m
A	Adult Care		359.516	(112.675)	246.841	385.238	(119.968)	265.270
B	Council Services		34.641	(24.943)	9.698	28.205	(23.919)	4.286
C	Economic Development and Regeneration		4.350	(0.458)	3.892	2.317	(0.915)	1.402
D	Health and Communities		52.597	(46.293)	6.304	48.660	(45.252)	3.408
E	Highways, Transport and Infrastructure		122.034	(20.190)	101.844	122.625	(20.490)	102.135
F	Strategic Leadership, Culture and Tourism		14.948	(1.680)	13.268	13.588	(1.404)	12.184
G	Young People		688.155	(485.837)	202.318	684.134	(464.813)	219.321
<b>A-G</b>	<b>Net Cost of Services</b>		<b>1,276.241</b>	<b>(692.076)</b>	<b>584.165</b>	<b>1,284.767</b>	<b>(676.761)</b>	<b>608.006</b>
H	Other Operating Expenditure	6			187.822			232.752
I	Financing and Investment Income and Expenditure	7			40.056			5.393
J	Taxation and Non- Specific Grants	8			(589.461)			(596.675)
<b>A-J</b>	<b>Deficit on Provision of Services</b>				<b>222.582</b>			<b>249.476</b>
K	Gain on Revaluation of Non-Current Assets	16			(302.889)			(70.739)
L	Loss on Revaluation of Non-Current Assets	16			80.019			169.999
M	Remeasurement of Net Pension Liability/ (Asset)	51			(69.631)			137.437
N	Loss on Financial Assets	23			0.000			1.756
<b>K-N</b>	<b>Other Comprehensive Expenditure/ (Income)</b>				<b>(292.501)</b>			<b>238.453</b>
<b>A-N</b>	<b>Total Comprehensive Expenditure/ (Income)</b>				<b>(69.919)</b>			<b>487.929</b>

The accompanying notes form an integral part of the financial statements.

The Council reports through seven Cabinet Member Portfolios, referenced A-G above.

## BALANCE SHEET

31 Mar 2018		Note	31 Mar 2019
£m			£m
2,186.076	Property Plant & Equipment	16	1,860.060
54.993	Heritage Assets	18	50.301
2.103	Intangible Assets	20	2.249
60.655	Non-Current Investments	23	98.665
1.067	Non-Current Debtors	22	1.093
<b>2,304.894</b>	<b>Total Non-Current Assets</b>		<b>2,012.368</b>
166.415	Current Investments	23	145.999
0.730	Assets Held for Sale	21	1.953
3.096	Inventories	24	2.212
57.861	Current Debtors	25	80.105
45.251	Cash and Cash Equivalents	26	41.659
<b>273.353</b>	<b>Total Current Assets</b>		<b>271.928</b>
(15.303)	Loans and Borrowing	23	(37.574)
(110.410)	Creditors	27	(129.932)
<b>(125.713)</b>	<b>Total Current Liabilities</b>		<b>(167.506)</b>
(283.471)	Non-Current Borrowing	23	(246.075)
(12.561)	Provisions	28	(14.573)
(770.431)	Other Non-Current Liabilities	29	(957.999)
<b>(1,066.463)</b>	<b>Total Non-Current Liabilities</b>		<b>(1,218.647)</b>
<b>1,386.071</b>	<b>NET ASSETS</b>		<b>898.143</b>
307.494	Usable Reserves	15	366.732
1,078.577	Unusable Reserves	15	531.411
<b>1,386.071</b>	<b>TOTAL EQUITY</b>		<b>898.143</b>

The accompanying notes form an integral part of the financial statements.

## CASH FLOW STATEMENT

2017-18 £m		Note	2018-19 £m
(222.586)	<b>Net Surplus or (Deficit) on the provision of services</b>		(249.476)
153.317	Adjustments for non cash movements	45	99.109
106.232	Adjustments for investing and financing activities	45	174.037
	Net cashflow from:		
<b>36.963</b>	<b>Operating Activities</b>	<b>44</b>	<b>23.670</b>
4.433	Investing Activities	42	(37.904)
(28.117)	Financing Activities	43	10.639
<b>13.279</b>	<b>Movement in Cash &amp; Cash Equivalent</b>		<b>(3.595)</b>
31.975	Cash & Cash Equivalents at the start of the year	26	45.254
<b>45.254</b>	<b>Cash &amp; Cash Equivalents at the end of the year</b>	<b>26</b>	<b>41.659</b>

The accompanying notes form an integral part of the financial statements.

## MOVEMENT IN RESERVES STATEMENT

	Note	General Reserve	Earmarked Reserves	Unapplied Capital Grants	Capital Receipts Reserve	TOTAL USABLE RESERVES	Unusable Reserves	Total Council Reserves
		£m	£m	£m	£m	£m	£m	£m
<b>2018-19</b>								
<b>Balance at 31 March 2018</b>		(65.033)	(187.567)	(36.906)	(17.987)	(307.491)	(1,078.577)	(1,386.068)
<b>Movement in reserves during 2018-19</b>								
Total Comprehensive Income and Expenditure	CIES	249.474	0.000	0.000	0.000	249.474	238.453	487.927
Adjustments between accounting basis and funding basis under regulations	15	(294.889)	0.000	(19.379)	5.554	(308.714)	308.714	0.000
Net Transfer to Reserves		45.878	(45.878)	0.000	0.000	0.000	0.000	0.000
(Increase)/Decrease in 2018-19		0.463	(45.878)	(19.379)	5.554	(59.240)	547.167	487.927
<b>Balance at 31 March 2019 carried forward</b>		<b>(64.570)</b>	<b>(233.445)</b>	<b>(56.285)</b>	<b>(12.433)</b>	<b>(366.731)</b>	<b>(531.411)</b>	<b>(898.141)</b>
<b>2017-18</b>								
<b>Balance at 31 March 2017</b>		(51.265)	(202.405)	(31.500)	(17.604)	(302.772)	(1,013.380)	(1,316.153)
<b>Movement in reserves during 2017-18</b>								
Total Comprehensive Income and Expenditure	CIES	222.586	0.000	0.000	0.000	222.586	(292.501)	(69.915)
Adjustments between accounting basis and funding basis under regulations	15	(221.516)	0.000	(5.406)	(0.383)	(227.305)	227.305	0.000
Net Transfer to Reserves		(14.838)	14.838	0.000	0.000	0.000	0.000	0.000
(Increase)/Decrease in 2017-18		(13.768)	14.838	(5.406)	(0.383)	(4.719)	(65.196)	(69.915)
<b>Balance at 31 March 2018 carried forward</b>		<b>(65.033)</b>	<b>(187.567)</b>	<b>(36.906)</b>	<b>(17.987)</b>	<b>(307.491)</b>	<b>(1,078.577)</b>	<b>(1,386.068)</b>

The accompanying notes form an integral part of the financial statements.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other notes. This is due to amounts being rounded. It is not expected that a difference would be in excess of £5,000 in any single case.

### 1. ACCOUNTING POLICIES

The Accounting Policies for the Council have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting (the Code). Where there is no specific guidance in the Code, the Council has developed its own Accounting Policy which is aimed at creating information which is:

- relevant to the decision making needs of users; and
- reliable, in that the financial statements:
- represent fairly the financial position, financial performance and cash flows of the entity;
- reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- are neutral i.e. free from bias;
- are prudent; and
- are complete in all material respects.

The Policies outline how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2018-19 financial year.

The Accounting Policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the Council's accounts.

The Accounting Policies of the Council, as far as possible, have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable.

The Policies have been updated to reflect changes in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

### 2. CRITICAL JUDGEMENTS WHEN APPLYING THE ACCOUNTING STANDARDS

#### **New Waste Treatment Facility**

The Council and Derby City Council entered into an Inter Authority Agreement (IAA) on 20 August 2014 in relation to the operation and management of a Public Private Partnership (PPP) contract with Resource Recovery Solutions (Derbyshire) Limited (RRS) for the construction of the long term New Waste Treatment Facility (NWTF) in Sinfin and the provision of associated services. The facility was due to open in 2017, however, RRS has not to date been able to resolve ongoing issues at the plant to allow it to pass the certified performance tests needed to bring it into full operation.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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As the IAA establishes that each council is represented on the board set up to oversee and implement the delivery of the project and has 50:50 voting rights, the councils collectively are considered to have power over the relevant activities and hence have control collectively. The relevant activities are the long term running of waste disposal for the councils. As decisions about the relevant activities require the unanimous consent of both parties, the arrangement is considered to meet the definition of a joint arrangement. As the arrangement is not structured as a separate entity it is classified as a joint operation and each council will recognise its share of the arrangement's assets, liabilities, income and expenditure.

The Council has considered whether the NWTF meets the definition of a service concession asset; this is an asset which a public sector entity, in this case the councils, has control over, which is operated on their behalf by a private sector operator, in this case RRS. Whilst it is determined that the NWTF fulfils this definition, the Council does not consider that the fair value of the plant nor the likelihood of future service potential can be established with sufficient reliability in order for its share of the assets and liabilities to be recognised on the balance sheet at 31 March 2019. Therefore, it is the Council's judgement that the whole unitary charge paid to RRS is, in substance, consideration for waste disposal services and this has therefore been expensed to the CIES.

### **Going Concern**

The Council is actively pursuing opportunities to work with other local authorities, including exploring an option of a strategic alliance which would involve councils from the four counties of Nottinghamshire, Derbyshire, Leicestershire and Lincolnshire, along with the cities of Derby, Leicester and Nottingham, the local enterprise partnerships and Chambers of Commerce. The strategic alliance would focus on driving growth and prosperity in the East Midlands region through joint work on transport and other infrastructure, employment, skills and strategic planning. The Accounting Statements and Notes to the Accounts have been prepared with the view that the Council is a going concern and will continue to operate in its current form, as a single entity, with disregard to any future structural changes that may or may not occur.

### **3. ACCOUNTING STANDARDS ISSUED AND NOT YET APPLIED**

At the balance sheet date the following interpretations, new standards and amendments to existing standards have been published but not yet adopted by the Code:

- Amendments to IAS 40 Investment Property – Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This is not expected to impact on the Council.
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle makes amendments to IFRS 1 (First-time Adoption of International Reporting Standards, deleting expired short-term exemptions), IFRS 12 (Disclosure of Interests in Other Entities, covering subsidiaries, joint arrangements and associates) and IAS 28 (Investments in Associates and Joint Ventures) and the improvements would have had no impact on the Council's 2018-19 accounts.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty Over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the Council's accounts.
- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to which this will apply.
- IFRS 16 Leases will require the Council, in its capacity as a lessee, to recognise leases on its balance sheet as right-of-use assets with corresponding lease liabilities, with the exception of leases with a term of 12 months or less or where the underlying asset is of low value. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2019.

#### 4. PRIOR PERIOD ADJUSTMENTS

There are no prior period adjustments.

#### 5. ASSUMPTIONS MADE AND OTHER ESTIMATION UNCERTAINTY

##### Property Plant and Equipment Valuation

When determining fair value for the measurement and disclosure requirements in relation to the Council's Property, Plant and Equipment assets, the Council makes assumptions and estimations. Where direct observable market data is unavailable, judgement is required in order to determine a fair value and the Council uses relevant experts to ensure that appropriate valuation techniques are used. Typically judgements include considerations such as uncertainty and risk.

The method of valuation of the Council's portfolio of schools is the Depreciated Replacement Cost method, using a Modern Equivalent Asset. In 2018-19 the Council changed its estimation methodology. Where the build requirement is greater than the actual asset, the estimation methodology adopted in 2018-19 restricts the valuation to the actual size of the current asset. In previous years the Council valued schools according to the principle of intensity of use, without this restriction. This more prudent approach has resulted in increased losses to the revaluation reserve of £82.813m, upward revaluations gains being £8.508m lower and increased charges to the CIES of £3.890m, resulting in a total difference of £95.211m.

Land and Building assets measured at current value are revalued on a five year rolling basis by the Council's internal team of valuers. Each property is assessed on its own merits and the valuation is determined with due regard to any change or uncertainties which may affect the specific property. It is estimated that a theoretical 1% market drop applied across all properties valued in 2018-19 would equate to an impairment variation of £0.504m, which would be expensed through the surplus/deficit on the provision of services.



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## NOTES TO THE CORE FINANCIAL STATEMENTS

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### **Defined Benefit Pension Scheme Liabilities**

Estimation of the net liability to pay pensions depends on several 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 investments. The Council has engaged Hymans Robertson LLP as its Consulting Actuary to provide expert advice about the assumptions to be applied.

The effect of changes in these estimates on the net pension liability of the Council are reviewed on an ongoing basis. Variations in the key assumptions will have the following impact on the net liability:

- A 0.5% decrease in the real discount rate will increase the net pension liability by £312.761m (10% increase in liability).
- A 0.5% increase in the assumed level of pension increases will increase the net pension liability by £263.975m (9% increase in liability).
- A 0.5% increase in the assumed level of salary increases will increase the net pension liability by £43.452m (1% increase in liability).

### **Impact of McCloud Judgement**

The McCloud judgement relates to a legal challenge by members of the New Judicial Pension Scheme against the age-based transitional provisions put into place when new pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on the grounds of age and indirectly discriminatory on the grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. A Tribunal ruled against the Government, deeming that the transitional provisions were not a proportionate means of achieving a legitimate aim. Given the uncertainty around this judgement, with the Government awaiting news of its right to an appeal, it is too early to know what the likely impact of the McCloud judgement may be on members' benefits. The Actuary has therefore not made any allowance for potential outcomes of this judgement in its estimation of the net liability to pay pensions reflected in these accounts at 31 March 2019.

### **Impact of GMP Equalisation**

The State Pension for people who reached State Pension age before 6 April 2016 had two tiers - the basic State Pension (which was flat-rate and dependent on an individual's NI record) and the additional State Pension – which was partly earnings-related. It was possible to contract out of the additional State Pension into an occupational pension scheme that met set criteria. Where an employee was contracted-out, they and their employer paid a reduced rate of National Insurance, to reflect the fact that they were forfeiting additional State Pension rights for that period. Between 1978 and 1997, contracted-out schemes were required to provide a Guaranteed Minimum Pension (GMP). Since 1997, a different test has applied but contracted-out schemes still have to provide a GMP for rights accrued between 1978 and 1997.

On 1 November 2018, the High Court ruled that the Lloyds Banking Group must amend its defined benefit pension schemes in order to equalise Guaranteed Minimum Pensions (GMPs) for men and women. Any GMP equalisation would be included as a 'past service cost' in the CIES. However, this should only follow a 'trigger event' in respect of a particular pension scheme. The Actuary's view is that a 'trigger event' has yet to occur in

## NOTES TO THE CORE FINANCIAL STATEMENTS

respect of the Local Government Pension Scheme (LGPS) and the Actuary has therefore not made any allowance for GMP equalisation impact in its estimation of the net liability to pay pensions reflected in these accounts at 31 March 2019.

### Financial Instruments Fair Value Estimates

The fair value of the Council's Lender Option Borrower Option (LOBO) loans and long term loans of £21.535m (£15.000m nominal) has been determined incorporating option pricing from Bloomberg. The fair value of all short term investments (under 1 year) has been assumed to be their nominal value.

The impact of a 1% interest rate rise on the fair value of the Council's borrowing and investments at 31 March 2019 is a reduction of £44.694m in the net financial liability.

### Business Rates Appeals

Local authorities are liable for an element of any successful appeal against business rates charged to businesses in 2018-19 and earlier years. The billing authorities have made provisions to recognise the best estimate of the amount that businesses have been overcharged, for which the Council's proportionate share, approximately £12.162m has been reflected through the Collection Fund adjustment account.

### Waste Recycling Credits

The Resource Recovery Solutions (Derbyshire) Ltd (RRS) quarter four waste contract creditor, in respect of recycling credits, is £1.942m. This is based on tonnages from previous periods, which have been consistent throughout the year. Under/over estimation of recycling credits tonnages could result in a variation of +/-3% (£0.058m).

### Britain leaving the European Union

There is a high level of uncertainty about the implications of Britain leaving the European Union (EU). At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or change discount rates. However, this assumption needs to be revisited and reviewed regularly. The implication of this is higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

## 6. OTHER OPERATING EXPENDITURE

2017-18		2018-19
£m		£m
(0.608)	Trading Operations	(0.791)
0.323	Levies and Precepts	0.329
188.107	Loss on Disposal of Non-Current Assets	233.214
<b>187.822</b>		<b>232.752</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The surplus for the year from commercial trading operations was achieved with a gross expenditure of £0.580m (2017-18: £0.777m) offset against income of £1.371m (2017-18: £1.385m).

Loss on disposal of fixed assets has increased significantly in 2018-19 and the main reason for this is an increase in the number of schools that converted to academies during the year (2018-19, 31; 2017-18, 22).

Movements on Fixed Assets, including disposals, are shown in Note 16.

### 7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017-18		2018-19
£m		£m
20.543	Interest Payable	19.339
(3.977)	Interest Receivable	(2.799)
(0.872)	Dividends Receivable	(2.741)
0.000	Financial Asset Impairment (Gains)/Losses	1.562
5.442	Loan Modification (Gains)/Losses	(29.224)
18.920	Net Pension Costs	19.256
<b>40.056</b>		<b>5.393</b>

Gains and losses relating to the impairment of financial assets have been included in Financing and Investment Income and Expenditure (FIIE) in 2018-19 for the first time. This is in line with the latest CIPFA guidance which considers that conceptually debtors are now a credit facility. Therefore impairment losses from bad debts, gains or losses on the impairment of debt, or impairment of other investments held at amortised cost are a loss of principal and recognition in FIIE is therefore the default treatment.

Due to the adoption of IFRS 9 Financial Instruments for the first time in 2018-19, there is a change in the measurement of the liability in respect of any loans which have been restructured. The new standard requires any such loans, still held on the Council's balance sheet and which were modified more than twelve months before its adoption, are re-measured. Of the liabilities the Council had on its balance sheet at 31 March 2018, £102.233m related to loans which were restructured prior to 1 April 2006. IFRS 9 requires that the interest expense in the CIES is recognised at the original, unmodified, interest rate. As the cash interest and loan redemption payments changed following the restructure, the carrying amount of the liability on the balance sheet must be adjusted to accommodate a reversion to the original interest rate. After adoption of the new standard, the carrying value of the relevant loans was £73.010m. The difference of £29.224m between the old and new carrying amounts was recognised in the CIES as a gain on modification. This gain has been set aside in an earmarked reserve to fund the higher interest charges subsequent to the change.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Interest payable has been itemised in the table below.

2017-18		2018-19
£m		£m
15.073	Interest Payable on Capital Borrowing	14.553
4.649	Interest Payable on PFI	3.571
0.596	Interest Payable on Finance Leases	0.583
0.225	Interest Payable on Other Items	0.632
<b>20.543</b>		<b>19.339</b>

Interest receivable has been itemised in the table below.

2017-18		2018-19
£m		£m
(3.486)	Interest Receivable on Investments	(2.498)
(0.011)	Interest Receivable on Transferred Debt	(0.016)
(0.001)	Interest Receivable on Finance Leases	(0.005)
(0.047)	Interest Receivable on Cash & Bank Balances	(0.023)
(0.432)	Interest Receivable on Other Items	(0.257)
<b>(3.977)</b>		<b>(2.799)</b>

### 8. TAXATION AND NON-SPECIFIC GRANT INCOME

2017-18		2018-19
£m		£m
(293.495)	Council Tax	(313.854)
(44.056)	Revenue Support Grant	0.000
(108.185)	Business Rates	(145.341)
(10.504)	Private Finance Initiative Grant	(10.504)
(2.497)	New Homes Bonus	(2.058)
(33.618)	Other General Revenue Grants	(50.624)
(97.106)	Capital Grants	(74.294)
<b>(589.461)</b>		<b>(596.675)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 9. EXPENDITURE AND FUNDING ANALYSIS

2017-18				2018-19		
Expenditure/ (Income) chargeable to General Reserve Balance £m	Adjustments between funding and Accounting Basis £m	Net Expenditure in the CIES £m		Expenditure/ (Income) chargeable to General Reserve Balance £m	Adjustments between funding and Accounting Basis £m	Net Expenditure in the CIES £m
229.047	(17.794)	246.841	Adult Care	246.747	(18.523)	265.270
(1.435)	(11.133)	9.698	Council Services	(0.343)	(4.629)	4.286
3.724	(0.168)	3.892	Economic Development and Regeneration	1.299	(0.103)	1.402
4.804	(1.500)	6.304	Health and Communities	2.101	(1.307)	3.408
85.197	(16.647)	101.844	Highways, Transport and Infrastructure	85.482	(16.653)	102.135
10.017	(3.251)	13.268	Strategic Leadership, Culture and Tourism	9.180	(3.004)	12.184
120.325	(81.993)	202.318	Young People	135.960	(83.361)	219.321
<b>451.679</b>	<b>(132.486)</b>	<b>584.165</b>	<b>Net Cost of Services</b>	<b>480.426</b>	<b>(127.580)</b>	<b>608.006</b>
(0.285)	(188.107)	187.822	Other operating expenditure	(0.427)	(233.179)	232.752
43.782	3.726	40.056	Financing and investment income and expenditure	(4.939)	(10.332)	5.393
(508.949)	80.512	(589.461)	Taxation and non-specific grant income and expenditure	(474.595)	122.080	(596.675)
<b>(13.773)</b>	<b>(236.355)</b>	<b>222.582</b>	<b>Deficit/(Surplus) on Provision of Services</b>	<b>0.465</b>	<b>(249.011)</b>	<b>249.476</b>
51.265			Opening General Reserve Balance at 1 April	65.038		
13.773			Add/(less) Surplus/(Deficit) on General Reserve	(0.465)		
<b>65.038</b>			<b>Closing General Reserve Balance at 31 March</b>	<b>64.573</b>		

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Note to the Expenditure and Funding Analysis

2017-18					2018-19			
Adjustments for capital purposes (Note a) £m	Net Change for the Pensions Adjustments (Note b) £m	Other Differences (Note c) £m	Total Adjustments £m		Adjustments for capital purposes (Note a) £m	Net Change for the Pensions Adjustments (Note b) £m	Other Differences (Note c) £m	Total Adjustments £m
(3.072)	(14.722)	0.000	(17.794)	Adult Care	(3.577)	(14.946)	0.000	(18.523)
(10.938)	(0.195)	0.000	(11.133)	Council Services	(4.341)	(0.288)	0.000	(4.629)
(0.062)	(0.106)	0.000	(0.168)	Economic Development and Regeneration	(0.013)	(0.090)	0.000	(0.103)
(0.065)	(1.435)	0.000	(1.500)	Health and Communities	(0.007)	(1.300)	0.000	(1.307)
(12.556)	(4.091)	0.000	(16.647)	Highways, Transport and Infrastructure	(12.708)	(3.945)	0.000	(16.653)
(1.206)	(2.045)	0.000	(3.251)	Strategic Leadership, Culture and Tourism	(1.165)	(1.839)	0.000	(3.004)
(48.577)	(33.416)	0.000	(81.993)	Young People	(51.303)	(32.058)	0.000	(83.361)
<b>(76.476)</b>	<b>(56.010)</b>	<b>0.000</b>	<b>(132.486)</b>	<b>Net Cost of Services</b>	<b>(73.114)</b>	<b>(54.466)</b>	<b>0.000</b>	<b>(127.580)</b>
(188.107)	0.000	0.000	(188.107)	Other Operating Expenditure	(233.179)	0.000	0.000	(233.179)
8.974	0.000	(5.248)	3.726	Financing and investment income and expenditure	(10.530)	0.000	0.198	(10.332)
97.106	0.000	(16.594)	80.512	Taxation and non-specific grant income and expenditure	74.294	0.000	47.786	122.080
<b>(158.503)</b>	<b>(56.010)</b>	<b>(21.842)</b>	<b>(236.355)</b>	<b>Deficit on Provision of Services</b>	<b>(242.529)</b>	<b>(54.466)</b>	<b>47.984</b>	<b>(249.011)</b>

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## **NOTES TO THE CORE FINANCIAL STATEMENTS**

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### **a - Adjustments for Capital Fund and Expenditure Purposes**

Adjustment to General Reserve Balance to meet the requirements of generally accepted accounting practices, this column adds in depreciation and impairment and revaluation gains and losses in the service lines and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those 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 financing and investment income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and Non Specific Grant Income and Expenditure – Capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants in the year without conditions or for which conditions were satisfied in the year.

### **b - Net change for the removal of pension contributions and the addition of pension IAS19 related expenditure and income**

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 past authority as permitted 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.

### **c - Other Differences**

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

- For Financing and investment income and expenditure the other differences column recognises adjustments to General Reserve for the timing differences for premiums and discounts.
- 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 business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the district/borough council Collection Funds. It also represents the movement in the Earmarked Reserve balances.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 10. EXPENDITURE AND INCOME ANALYSED BY NATURE

	2017-18 £m	2018-19 £m
<b>Expenditure</b>		
Employee expenses	600.747	592.996
Premises	33.589	31.955
Transport	26.577	28.694
Supplies and services	523.623	542.891
Capital depreciation, amortisation, impairment	91.705	88.230
Interest payments, loan modification, financial asset impairment	44.905	10.933
Precepts and levies	0.323	0.329
Trading operations	(0.608)	(0.791)
Loss on disposal of assets	188.107	233.214
<b>Total Expenditure</b>	<b>1,508.970</b>	<b>1,528.451</b>
<b>Income</b>		
Fees, charges and other service income	(177.655)	(188.458)
Interest and investment income	(4.849)	(5.540)
Income from Council Tax, non-domestic rates	(401.679)	(459.195)
Government grants and contributions	(702.203)	(625.782)
<b>Total Income</b>	<b>(1,286.386)</b>	<b>(1,278.975)</b>
<b>Deficit on the Provision of Services</b>	<b>(222.582)</b>	<b>(249.476)</b>

### 11. AGENCY ARRANGEMENTS

The Council makes payments for Funded Nursing Care to providers on behalf of the Clinical Commissioning Groups (CCGs). The cost of administering the service is fully funded by the CCGs.

2017-18 £m		2018-19 £m
9.590	Payments to Nursing Care Providers	9.245
(10.440)	Recharge to CCGs	(8.903)
(0.082)	Admin Charge to CCGs	(0.087)
<b>(0.932)</b>		<b>0.255</b>

### 12. NON DISTRIBUTED (INCOME)/COSTS

Non Distributed (Income)/Costs comprises settlements income of £8.626m (2017-18: £7.191m) and past service costs of £0.382m (2017-18: £0.418m) relating to post-employment benefits (see Note 51).



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## NOTES TO THE CORE FINANCIAL STATEMENTS

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### 13. RELATED PARTY TRANSACTIONS

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.

#### **County Council Controlled Companies**

Markham Vale Limited was a private company limited by two ordinary shares of £1. There were two shareholders, both appointed by the Council. On 25 February 2018 the Council applied to Companies House to dissolve the company and this became effective on 12 June 2018. There were no transactions with the company during the period to the point of dissolution.

MEGZ Limited is a private company limited by 9,251 ordinary shares, all of which are held by the Council. There are three directors of the company who are Members of the Council; all have been appointed by the Council. There were no transactions with the company during the financial year.

The Derbyshire Environmental Trust Limited is a company limited by guarantee with no share capital. Customer transactions with this organisation in the year totalled £0.070m. There were no vendor transactions during the year.

The Creswell Heritage Trust Limited is a company limited by guarantee with no share capital. The Director of the Trust is a Member who was appointed by the Council. Customer transactions with this organisation in the year totalled £0.002m and vendor transactions totalled £0.039m.

Scape Group Limited is a private limited company. The Council holds 75,000 of its £1 ordinary shares (17% share). The Council has one director on the company board who is an elected Member of the Council and was appointed by the Council. During 2018-19 the Council received dividends of £0.200m from Scape Group Limited.

Derbyshire Developments Limited is a private company limited by one ordinary share of £1. There are three directors all appointed by the Council. The Council has provided a start-up loan to the company to cover running costs such as staffing, accommodation, IT and audit, up until the point where income will recover these fixed costs of being “in business”. At 31 March 2019, the balance on the loan to Derbyshire Developments Limited was £0.500m. The company has paid interest on this loan during 2018-19 of £0.028m, at an interest rate of base plus 5%.

**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 the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other organisations. Grants received from Government departments are set out in the subjective analysis in Note 10. Grant receipts are also disclosed in Note 8 and Note 41.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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Typical transactions with Central Government bodies include, but are not restricted to, investments, Pay As You Earn and National Insurance contributions paid and pension contributions paid. Customer transactions in the year totalled £13.989m, of this, £13.837m were with academy schools. Vendor transactions totalled £185.259m and included the following significant transactions:

Inland Revenue	£106.428m
Teachers' Pensions	£38.786m
Public Works Loan Board	£20.266m

**Other Local Authorities** - typical transactions include, but are not restricted to, investments, borrowing, repayment of transferred debt, re-imburement of joint project costs and supplies of goods and services. Customer transactions totalled £32.704m and included significant transactions with Derby City Council totalling £18.903m. Vendor transactions totalled £428.048m and included investments and borrowing amounting to £50.000m with Thurrock Borough Council, £40.000m with Birmingham City Council, £40.000m with Surrey County Council, £20.000m with Glasgow City Council, and £20.000m with The Mayor of London's Office for Policing and Crime.

**Health Bodies** - typical transactions include, but are not restricted to, re-imburement of joint project costs and supplies of goods and services. Customer transactions with health bodies in the year totalled £69.072m and included significant transactions with NHS North Derbyshire CCG of £33.507m, NHS Southern Derbyshire CCG of £20.506m, NHS Hardwick CCG of £6.157m and NHS Erewash CCG of £5.822m. Vendor transactions totalled £31.675m and included transactions with Derbyshire Community Health Services NHS Foundation Trust of £25.616m.

**Members and Senior Officers** - Council Members and Senior Officers have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2018-19 is shown in Note 34. Customer transactions in which Members and/or Senior Officers had an interest totalled £23.381m, of which £20.506m is in respect of NHS Southern Derbyshire CCG, which has the Council's Director of Public Health on its Governing Body as a local authority representative. During 2018-19 works and services to the value of £2.406m, of which £1.916m is in respect of NHS Southern Derbyshire CCG, were commissioned from companies in which Members and/or Senior Officers had an interest. There were no material outstanding balances at year end. Contracts were entered into in full compliance with the Council's Standing Orders.

During 2018-19 a Member was serving as Derbyshire's Deputy Police and Crime Commissioner, four Members served as Council appointed members of the Peak District National Park Authority, two Members served at different times as the Council's representative to Belper Leisure Centre Limited, a charitable company limited by guarantee, and one Member served as the Council's nominated director to Belper Leisure Limited.

**Derbyshire Pension Fund** - the Council is the administering authority for the purposes of the Derbyshire Pension Fund (the Fund) under the Local Government Pension Scheme (Administration) Regulations 2013.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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Included in management expenses in 2018-19 are charges from the Council of £2.269m (2017-18, £2.471m) for expenses incurred in respect of oversight and governance of the Fund, for Fund administration and for management of the Fund's in-house investments.

At 31 March 2019 the Council owed the Fund £3.899m (2018, the Council owed the Fund £3.243m).

It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 34 and 35.

**LGPS Central Limited** - LGPS Central Limited (LGPSC) has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPSC Pool, of which the Council, as the administering authority for the Fund, is one of the shareholders.

In 2017-18 the Fund incurred set-up costs in relation to LGPSC of £0.502m. At 31 March 2018 the Fund accrued income of £0.500m for the recovery of these costs. These set-up costs were reimbursed by LGPSC to the Fund in 2018-19. The Fund invested £1.315m in share capital and £0.685m in a loan to LGPSC in 2017-18. These remain the balances at 31 March 2019. The Fund was owed interest of £0.043m on the loan to LGPSC at 31 March 2019 (2017-18, £nil).

LGPSC launched its first products on 1 April 2018 and since 3 April 2018 has managed the Fund's UK Equity portfolio on a discretionary basis. LGPSC has also provided advisory investment management services in respect of the Fund's Japanese Equities, Asia Pacific Ex-Japanese Equities and Emerging Market Equities since 11 September 2018. The charges in respect of these services totalled £0.764m in 2018-19 (2017-18, £nil), of which £0.211m was payable to LGPSC at 31 March 2019 (31 March 2018, £nil).

The Fund incurred £0.756m in respect of Governance, Operator Running and Product Development in connection with LGPSC in 2018-19 (2017-18, £nil), of which £0.125m was payable to LGPSC at 31 March 2019 (31 March 2018, £nil).

LGPSC leases office space from the Council. The lease commenced on 14 June 2018 and is for a duration of five years, with a break clause at 30 June 2021. The rental income received and receivable by the Council from LGPSC in 2018-19 amounted to £0.014m. For the duration of the lease term, subsequent years' rentals will be subject to an annual increase of 2.8%.

### 14. CONTINGENT ASSETS AND LIABILITIES AND SIMILAR COMMITMENTS

There are several employment tribunals and a Care Quality Commission (CQC) proceeding in progress at 31 March 2019. There is no provision in the financial statements for these tribunals and proceedings as at this stage no liability can be determined. However, there may be liabilities arising, if decisions are not made in favour of the Council.

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## **NOTES TO THE CORE FINANCIAL STATEMENTS**

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At 31 March 2019 the Council was committed to make investments totalling £5.000m (one commitment of £5.000m). There is no provision or creditor for this amount in the financial statements as the legal obligation to pay was not fulfilled at the year-end. This commitment will be met using funds received from the maturity of earlier investments and therefore has no impact to the financial position reported.

### **15. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS**

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

Narrative	Note	Usable reserves				Total Unusable Reserves	Total
		General Reserve £m	Earmarked Revenue Reserves £m	Unapplied Capital Grants £m	Capital Receipts Reserve £m		
<b>BALANCE AS AT 1 APRIL 2018</b>		<b>(65.033)</b>	<b>(187.567)</b>	<b>(36.906)</b>	<b>(17.987)</b>	<b>(1,078.575)</b>	<b>(1,386.068)</b>
Comprehensive Income & Expenditure		249.474	0.000	0.000	0.000	238.453	487.927
Depreciation of Non-Current Assets	16	(42.569)	0.000	0.000	0.000	42.569	0.000
Impairment of Non-Current Assets	16	(30.544)	0.000	0.000	0.000	30.544	0.000
Application of Capital Grants credited to the CIES	41	74.294	0.000	(74.294)	0.000	0.000	0.000
Disposal of Non-Current Assets	16	(233.214)	0.000	0.000	(5.334)	238.548	0.000
Revenue Expenditure Funded from Capital Under Statute		(15.117)	0.000	0.000	0.000	15.117	0.000
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(1.460)	0.000	0.000	0.000	1.460	0.000
Amount by which Council Tax and Business Rates income credited to the CIES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements		1.907	0.000	0.000	0.000	(1.907)	0.000

## NOTES TO THE CORE FINANCIAL STATEMENTS

Reversal of items relating to retirement benefits debited or credited to the CIES	51	(112.055)	0.000	0.000	0.000	112.055	0.000
Statutory provision for the financing of capital investment		4.665	0.000	0.000	0.000	(4.665)	0.000
Principal repayments of transferred debt		(0.078)	0.000	0.000	0.000	0.078	0.000
Capital expenditure charged in the year to the General Reserve		0.000	0.000	0.000	0.000	0.000	0.000
Amount by which finance costs (proportion of previous years premiums) charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	23	0.198	0.000	0.000	0.000	(0.198)	0.000
Amount by which finance costs (reversal of effective interest rate) charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	23	0.000	0.000	0.000	0.000	0.000	0.000
Employer's pension contributions and direct payments to pensioners payable in the year	51	59.049	0.000	0.000	0.000	(59.049)	0.000
Transfer to Earmarked Reserves	31	127.110	(127.110)	0.000	0.000	0.000	0.000
Transfer from Earmarked Reserves	31	(81.232)	81.232	0.000	0.000	0.000	0.000
Capital receipts from Finance Lease Debtors	48	0.035	0.000	0.000	(0.044)	0.009	0.000
Financing of capital expenditure	19	0.000	0.000	54.915	10.932	(65.847)	0.000
<b>BALANCE AT 31 MARCH 2019</b>		<b>(64.570)</b>	<b>(233.445)</b>	<b>(56.285)</b>	<b>(12.433)</b>	<b>(531.408)</b>	<b>(898.141)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Narrative	Note	Usable reserves				Total Unusable Reserves	Total
		General Reserve £m	Earmarked Revenue Reserves £m	Unapplied Capital Grants £m	Capital Receipts Reserve £m		
<b>BALANCE AS AT 1 APRIL 2017</b>		<b>(51.265)</b>	<b>(202.405)</b>	<b>(31.500)</b>	<b>(17.604)</b>	<b>(1,013.379)</b>	<b>(1,316.153)</b>
Comprehensive Income & Expenditure		222.586	0.000	0.000	0.000	(292.501)	(69.915)
Depreciation of Non-Current Assets	16	(46.303)	0.000	0.000	0.000	46.303	0.000
Impairment of Non-Current Assets	16	(30.172)	0.000	0.000	0.000	30.172	0.000
Application of Capital Grants credited to the CIES	41	97.106	0.000	(97.106)	0.000	0.000	0.000
Disposal of Non-Current Assets	16	(188.107)	0.000	0.000	(1.770)	189.877	0.000
Revenue Expenditure Funded from Capital Under Statute		(15.231)	0.000	0.000	0.000	15.231	0.000
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		2.555	0.000	0.000	0.000	(2.555)	0.000
Amount by which Council Tax and Business Rates income credited to the CIES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements		(1.756)	0.000	0.000	0.000	1.756	0.000
Reversal of items relating to retirement benefits debited or credited to the CIES	51	(118.380)	0.000	0.000	0.000	118.380	0.000

## NOTES TO THE CORE FINANCIAL STATEMENTS

Statutory provision for the financing of capital investment		13.425	0.000	0.000	0.000	(13.425)	0.000
Principal repayments of transferred debt		(0.089)	0.000	0.000	0.000	0.089	0.000
Capital expenditure charged in the year to the General Reserve		10.869	0.000	0.000	0.000	(10.869)	0.000
Amount by which finance costs (proportion of previous years premiums) charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	23	(5.645)	0.000	0.000	0.000	5.645	0.000
Amount by which finance costs (reversal of effective interest rate) charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	23	0.397	0.000	0.000	0.000	(0.397)	0.000
Employer's pension contributions and direct payments to pensioners payable in the year	51	59.815	0.000	0.000	0.000	(59.815)	0.000
Transfer to Earmarked Reserves	31	61.366	(61.366)	0.000	0.000	0.000	0.000
Transfer from Earmarked Reserves	31	(76.204)	76.204	0.000	0.000	0.000	0.000
Capital Receipts from Finance Lease Debtors	48	0.000	0.000	0.000	(0.012)	0.012	0.000
Financing of capital expenditure	19	0.000	0.000	91.700	1.399	(93.099)	0.000
<b>BALANCE AT 31 MARCH 2018</b>		<b>(65.033)</b>	<b>(187.567)</b>	<b>(36.906)</b>	<b>(17.987)</b>	<b>(1,078.575)</b>	<b>(1,386.068)</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16. PROPERTY, PLANT AND EQUIPMENT

The value of Property, Plant and Equipment (PPE) assets in the Balance Sheet are shown at their carrying valuation, less accumulated depreciation charges. The table below shows the movement in PPE assets during the year:

	Note/ Statement	Land & Buildings £m	Vehicles, Plant & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Property Plant & Equipment £m
<b>COST OR VALUATION</b>								
<b>At 1 April 2018</b>		<b>1,819.981</b>	<b>68.196</b>	<b>426.733</b>	<b>4.108</b>	<b>13.584</b>	<b>46.802</b>	<b>2,379.404</b>
Additions		22.039	7.125	32.939	0.363	0.077	18.442	80.984
Disposals		(205.243)	(5.804)	0.000	0.000	(1.952)	0.000	(212.999)
Disposals derecognition		(21.581)	0.000	(17.335)	0.000	0.000	0.000	(38.916)
Revaluation Gains to RR*	CIES	37.842	0.000	0.000	0.000	3.163	0.000	41.005
Revaluation Losses to RR	CIES	(167.281)	0.000	0.000	0.000	(2.027)	0.000	(169.307)
Impairment to CIES		(26.052)	0.000	0.000	0.000	(0.059)	0.000	(26.111)
Transfer within PPE/ to Heritage		22.867	0.171	(0.335)	0.002	(0.316)	(22.508)	(0.120)
Transfer to Held for Sale		(0.035)	(0.165)	0.000	0.000	(2.015)	0.000	(2.214)
<b>At 31 March 2019</b>		<b>1,482.536</b>	<b>69.523</b>	<b>442.002</b>	<b>4.473</b>	<b>10.456</b>	<b>42.736</b>	<b>2,051.726</b>
<b>DEPRECIATION</b>								
<b>At 1 April 2018</b>		<b>(39.349)</b>	<b>(63.483)</b>	<b>(90.021)</b>	<b>(0.025)</b>	<b>(0.450)</b>	<b>0.000</b>	<b>(193.328)</b>
Charge for year		(29.271)	(1.175)	(11.457)	(0.004)	(0.027)	0.000	(41.934)
Revaluations to RR	CIES	29.064	0.000	0.000	0.000	0.037	0.000	29.101
Impairment to CIES		(4.392)	0.000	0.000	0.000	0.000	0.000	(4.392)
Disposals		9.431	5.687	0.000	0.000	0.002	0.000	15.120
Disposals derecognition		0.648	0.000	2.857	0.000	0.000	0.000	3.505
Transfer within PPE		0.011	0.000	0.000	0.000	(0.011)	0.000	0.000
Transfers to Held for Sale		0.000	0.165	0.000	0.000	0.096	0.000	0.261
<b>At 31 March 2019</b>		<b>(33.857)</b>	<b>(58.806)</b>	<b>(98.621)</b>	<b>(0.029)</b>	<b>(0.353)</b>	<b>0.000</b>	<b>(191.667)</b>
<b>OPENING VALUE</b>		<b>1,780.632</b>	<b>4.713</b>	<b>336.712</b>	<b>4.083</b>	<b>13.134</b>	<b>46.802</b>	<b>2,186.076</b>
<b>CLOSING VALUE</b>		<b>1,448.679</b>	<b>10.717</b>	<b>343.381</b>	<b>4.444</b>	<b>10.103</b>	<b>42.736</b>	<b>1,860.060</b>
<b>NATURE OF ASSET HOLDING</b>								
Purchased / Built		1,351.980	10.717	343.381	4.444	10.103	42.736	1,763.361
Finance Lease		12.839	0.000	0.000	0.000	0.000	0.000	12.839
Donated		0.323	0.000	0.000	0.000	0.000	0.000	0.323
Private Finance Initiative		83.537	0.000	0.000	0.000	0.000	0.000	83.537
		<b>1,448.679</b>	<b>10.717</b>	<b>343.381</b>	<b>4.444</b>	<b>10.103</b>	<b>42.736</b>	<b>1,860.060</b>

\*RR - Revaluation Reserve

The fair value measurement of the Council's Surplus Assets is analysed below, with net book value being categorised as fair value Level 1, Level 2 or Level 3. Refer to Note 23 for more information about these Levels.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Net Book Value (NBV)			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Land</b>	0.000	0.831	8.107	8.938
<b>Buildings</b>	0.000	0.104	1.061	1.165
	<b>0.000</b>	<b>0.935</b>	<b>9.168</b>	<b>10.103</b>

The 2017-18 position was:

	Note/ Statement	Land & Buildings £m	Vehicles, Plant & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Property Plant & Equipment £m
<b>COST OR VALUATION</b>								
<b>At 1 April 2017</b>		<b>1,820.174</b>	<b>72.635</b>	<b>407.736</b>	<b>3.905</b>	<b>10.295</b>	<b>19.992</b>	<b>2,334.737</b>
Additions		21.403	0.645	37.992	0.131	0.044	30.123	<b>90.338</b>
Disposals		(153.059)	(5.051)	0.000	(0.002)	(0.140)	0.000	<b>(158.252)</b>
Disposals derecognition		(28.992)	0.000	(18.885)	(0.002)	0.000	0.000	<b>(47.879)</b>
Revaluation Gains to RR*	CIES	263.749	0.000	0.000	0.000	2.037	0.000	<b>265.786</b>
Revaluation Losses to RR	CIES	(70.215)	0.000	0.000	0.000	(9.459)	0.000	<b>(79.674)</b>
Impairment to CIES		(19.634)	0.000	0.000	0.000	(7.836)	0.000	<b>(27.470)</b>
Transfer within PPE/ to Heritage		(13.135)	0.022	(0.110)	0.076	16.043	(3.313)	<b>(0.417)</b>
Transfer to Held for Sale		(0.310)	(0.055)	0.000	0.000	2.600	0.000	<b>2.235</b>
<b>At 31 March 2018</b>		<b>1,819.981</b>	<b>68.196</b>	<b>426.733</b>	<b>4.108</b>	<b>13.584</b>	<b>46.802</b>	<b>2,379.404</b>
<b>DEPRECIATION</b>								
<b>At 1 April 2017</b>		<b>(34.793)</b>	<b>(67.169)</b>	<b>(83.392)</b>	<b>(0.021)</b>	<b>(0.566)</b>	<b>0.000</b>	<b>(185.941)</b>
Charge for year		(33.795)	(1.370)	(10.701)	(0.004)	0.100	0.000	<b>(45.770)</b>
Revaluations to RR	CIES	24.108	0.000	0.000	0.000	0.464	0.000	<b>24.572</b>
Impairment to CIES		(2.326)	0.000	0.000	0.000	(0.004)	0.000	<b>(2.330)</b>
Disposals		6.198	4.990	0.000	0.000	0.134	0.000	<b>11.322</b>
Disposals derecognition		0.956	0.000	4.072	0.000	0.000	0.000	<b>5.028</b>
Transfer within PPE/ to Heritage		0.303	0.011	0.000	0.000	(0.314)	0.000	<b>0.000</b>
Transfers to Held for Sale		0.000	0.055	0.000	0.000	(0.264)	0.000	<b>(0.209)</b>
<b>At 31 March 2018</b>		<b>(39.349)</b>	<b>(63.483)</b>	<b>(90.021)</b>	<b>(0.025)</b>	<b>(0.450)</b>	<b>0.000</b>	<b>(193.328)</b>
<b>OPENING VALUE</b>		<b>1,785.381</b>	<b>5.466</b>	<b>324.344</b>	<b>3.884</b>	<b>9.729</b>	<b>19.992</b>	<b>2,148.796</b>
<b>CLOSING VALUE</b>		<b>1,780.632</b>	<b>4.713</b>	<b>336.712</b>	<b>4.083</b>	<b>13.134</b>	<b>46.802</b>	<b>2,186.076</b>
<b>NATURE OF ASSET HOLDING</b>								
Purchased / Built		1,677.504	4.713	336.712	4.083	13.134	46.802	<b>2,082.948</b>
Finance Lease		11.366	0.000	0.000	0.000	0.000	0.000	<b>11.366</b>
Donated		5.820	0.000	0.000	0.000	0.000	0.000	<b>5.820</b>
Private Finance Initiative		85.942	0.000	0.000	0.000	0.000	0.000	<b>85.942</b>
		<b>1,780.632</b>	<b>4.713</b>	<b>336.712</b>	<b>4.083</b>	<b>13.134</b>	<b>46.802</b>	<b>2,186.076</b>

\*RR - Revaluation Reserve

Under IFRS13, the Council is required to provide a summary of the fair value measurement for Surplus Assets. The 2017-18 position was:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Net Book Value (NBV)			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Land</b>	0.000	1.007	11.080	12.087
<b>Buildings</b>	0.000	0.100	0.947	1.047
	<b>0.000</b>	<b>1.107</b>	<b>12.027</b>	<b>13.134</b>

### 17. HERITAGE ASSETS NOT REPORTABLE IN THE BALANCE SHEET

Where the Council is unable to place a reliable fair value on Heritage Assets because of their nature, it is required to disclose them in accordance with the Code of Practice on Local Authority Accounting. Details of these Heritage Assets are set out below:

- Colliery Bridge, Shipley Country Park
- Paul's Arm Bridge, Shipley Country Park
- Leawood River Aqueduct
- Northern Retaining Walls and Loading Bay, Cromford Wharf
- Side Walls and Curbs to Canal Basin, Cromford Wharf
- Railway Embankment and Road Bridge, Steeple Grange, Wirksworth
- Grindlow Tower, Solomon's Temple, Poole's Cavern Country Park, Buxton
- Workshops, offices and Terminus at Cromford and High Peak Junction
- Leawood Pumphouse, Cromford and High Peak Junction
- Brittain Colliery Headstocks, Ripley
- Brittain Colliery Engine House, Ripley

### 18. NATURE AND SCALE OF HERITAGE ASSETS

The Council's Heritage Assets are mainly museum assets, historic buildings and structures.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Carrying Value	
	2017-18	2018-19
	£m	£m
<b>COST OR VALUATION</b>		
<b>At 1st April</b>	<b>42.353</b>	<b>54.988</b>
Additions	0.424	0.752
Impairment Losses/(reversals) through I&E	0.000	(0.042)
Revaluations	11.914	(0.054)
Reclassifications	0.312	(0.007)
Disposals derecognition	(0.015)	(5.336)
<b>At 31st March</b>	<b>54.988</b>	<b>50.301</b>
<b>DEPRECIATION</b>		
<b>At 1st April</b>	<b>0.005</b>	<b>0.005</b>
Revaluations	0.000	(0.005)
<b>At 31st March</b>	<b>0.005</b>	<b>0.000</b>
OPENING VALUE	42.358	54.993
<b>CLOSING VALUE</b>	<b>54.993</b>	<b>50.301</b>
<b>NATURE OF ASSET HOLDING</b>		
Purchased / Built	53.614	48.713
Donated	1.379	1.588
	<b>54.993</b>	<b>50.301</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 19. CAPITAL EXPENDITURE AND CAPITAL FINANCING

2017-18		2018-19
£m		£m
	<b>Capital Expenditure</b>	
31.948	Schools	21.738
0.079	Childrens Homes/Centres and Adult Education Centres	0.186
36.799	Roads and Highways Related	32.566
0.141	Purchase of Vehicles	4.735
0.608	Countryside	1.370
0.000	Community Services	0.450
2.068	Other Environmental	0.618
2.615	Specialist and Extra Care Centres	4.220
1.010	Homes for Older People	0.923
0.108	Day Centres	0.120
0.015	Other Social Care and Services	0.037
1.025	Software	1.771
13.738	Crescent at Buxton	17.713
0.821	Other Corporate	0.338
1.901	Other	0.000
<b>92.876</b>	<b>Total Capital Additions</b>	<b>86.785</b>
(1.750)	Local Authority Mortgage Scheme Repaid Deposit	(0.250)
15.222	Revenue Expenditure Funded from Capital Under Statute	15.117
<b>106.348</b>	<b>Total Capital Expenditure</b>	<b>101.652</b>
	<b>Capital Financing</b>	
2.381	Loans	35.805
10.869	Revenue Contributions	0.000
1.398	Capital Receipts	10.932
91.700	Grants and Contributions	54.915
<b>106.348</b>	<b>Total Capital Financing</b>	<b>101.652</b>

### 20. INTANGIBLE ASSETS

Intangible assets relate to the purchase of software licences:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2017-18 £m	2018-19 £m
<b>COST OR VALUATION</b>		
<b>At 1st April</b>	<b>7.423</b>	<b>8.000</b>
Additions	0.471	0.653
Reclassifications	0.106	0.128
<b>At 31st March</b>	<b>8.000</b>	<b>8.781</b>
<b>DEPRECIATION</b>		
<b>At 1st April</b>	<b>(5.363)</b>	<b>(5.898)</b>
Charge for year	(0.535)	(0.634)
Disposals	0.000	0.000
<b>At 31st March</b>	<b>(5.898)</b>	<b>(6.532)</b>
OPENING VALUE	2.060	2.102
<b>CLOSING VALUE</b>	<b>2.102</b>	<b>2.249</b>

### 21. ASSETS HELD FOR SALE

	Carrying Value			RR
	GBV £m	Dpn £m	NBV £m	£m
<b>Held for Sale as at 31 March 2018</b>				
Southgate House	0.311	(0.011)	0.300	0.252
Peveril House	0.138	(0.028)	0.110	0.000
Red House Family Support Centre	0.216	(0.016)	0.200	0.056
Bolsover Day Services - Clowne	0.128	(0.008)	0.120	0.029
<b>Balance as at 31 March 2018</b>	<b>0.793</b>	<b>(0.063)</b>	<b>0.730</b>	<b>0.337</b>
<b>Sales during 2018-19</b>				
Southgate House	(0.311)	0.011	(0.300)	(0.252)
Peveril House	(0.138)	0.028	(0.110)	0.000
Red House Family Support Centre	(0.216)	0.016	(0.200)	(0.056)
Bolsover Day Services - Clowne	(0.128)	0.008	(0.120)	(0.029)
The Willows Home for Older People furniture	(0.030)	0.030	0.000	0.000
Duffield Depot furniture	(0.011)	0.011	0.000	0.000
<b>Transferred to Held for Sale during 2018-19</b>				
The Glebe Home for Older People	0.481	(0.031)	0.450	0.294
Hillcrest Home for Older People	0.275	(0.025)	0.250	0.075
The Willows Home for Older People furniture	0.030	(0.030)	0.000	0.000
Duffield Depot furniture	0.011	(0.011)	0.000	0.000
High Peak Area Social Services Office	0.266	(0.013)	0.253	0.194
15 The Green North Wingfield	0.035	0.000	0.035	0.024
Dronfield Youth Centre	0.003	0.000	0.003	0.003
Gladys Buxton Centre	1.113	(0.151)	0.962	0.000
<b>Balance as at 31 March 2019</b>	<b>2.173</b>	<b>(0.220)</b>	<b>1.953</b>	<b>0.590</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Assets must meet stringent criteria to be classified as Held for Sale rather than Surplus.

### 22. NON-CURRENT DEBTORS

31 Mar 2018 £m		Note	31 Mar 2019 £m
0.989	Transferred Debt	23	0.987
0.078	Loan to Police & Crime Commissioner		0.000
0.000	Other Long Term Debtors	23	0.106
<b>1.067</b>	<b>Total Non Current Debtors</b>		<b>1.093</b>

### 23. FINANCIAL INSTRUMENTS

Financial Assets comprise loans to other bodies, cash and short term deposits, investments in equity funds and receivables.

#### Current Financial Assets

	Carrying Value		Fair Value	
	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2019 £m
Current Investments	166.415	145.999	166.415	145.999
Cash and Cash Equivalents	45.251	41.659	45.251	41.659
Trade Debtors	22.776	24.268	22.776	24.268
<b>Current Financial Assets</b>	<b>234.442</b>	<b>211.926</b>	<b>234.442</b>	<b>211.926</b>

#### Non-Current Financial Assets

	Note	Fair Value Level	Carrying Value		Fair Value	
			31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2019 £m
Non-Current Transferred Debt	22	2	1.067	0.987	1.067	0.987
Non-Current Investments		2	60.655	98.665	60.753	100.244
Non-Current Trade Debtors	22	*	0.000	0.106	0.000	0.106
<b>Non-Current Financial Assets</b>			<b>61.722</b>	<b>99.758</b>	<b>61.820</b>	<b>101.337</b>

\* Fair value disclosure not required

#### Financial Assets by Measurement Classification

	Carrying Value		Fair Value	
	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2019 £m
Amortised Costs	276.467	243.440	276.565	245.019
Fair Value through Profit or Loss	0.000	0.000	0.000	0.000
FVOCI*	19.697	68.244	19.697	68.244
<b>Total Financial Assets</b>	<b>296.164</b>	<b>311.684</b>	<b>296.262</b>	<b>313.263</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

\*FVOCI – Financial Assets Measured at Fair Value through Other Comprehensive Income - these are investments in equity instruments which the Council has made an irrevocable election to present in Other Comprehensive Income and Expenditure.

At 31 March 2019 there was one non-current investment in the balance sheet with a carrying value in excess of £15.000m:

- CCLA Mutual Investment Trust Property Fund, with a fair value, based on closing bid price at 31 March 2019, of £24.106m (original investment £25.000m). This investment is open ended, however can be realised on a monthly basis.

Transferred Debt and Long Term Trade Debtors are not quoted on active markets meaning that fair value cannot be accurately calculated. As such they have been reported at carrying value.

### Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

The following financial assets are equity instruments which the Council has irrevocably elected to be measured at FVOCI. It is the Council's intention to hold these assets for the medium to long term to earn investment income and for capital appreciation.

Financial Assets measured at FVOCI	Carrying Value		Fair Value	
	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2019 £m
CCLA - LA Property Fund	9.930	24.106	9.930	24.106
CCLA Diversified Income Fund	4.816	4.969	4.816	4.969
Investec Diversified Income Fund	4.951	9.828	4.951	9.828
Kames - Diversified Income Fund	0.000	10.114	0.000	10.114
M&G - Optimal Income Fund	0.000	4.865	0.000	4.865
M&G - Global Dividend Fund	0.000	4.961	0.000	4.961
Schroder - Income Maximiser Fund	0.000	9.401	0.000	9.401
<b>Total</b>	<b>19.697</b>	<b>68.244</b>	<b>19.697</b>	<b>68.244</b>

The Council holds 75,000 £1 ordinary shares (17% share) in the Local Authority controlled Scape Group (Ltd). The value of this holding is small and there are conditions on the shares that prevent them from being traded on the open market. Consequently, since the fair value cannot be measured reliably, no value is carried on the Council's Balance Sheet.

There have been no financial assets measured at FVOCI which have been derecognised in the year ended 31 March 2019.

### Dividend Income

Dividend income from the Council's investments in equity instruments has been recognised as follows:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	2017-18 £m	2018-19 £m
<b>From Investments Derecognised</b>	<b>0.000</b>	<b>0.000</b>
CCLA - LA Property Fund	0.350	1.019
CCLA Diversified Income Fund	0.047	0.207
Investec Diversified Income Fund	0.050	0.406
Kames - Diversified Income Fund	0.000	0.254
M&G - Optimal Income Fund	0.000	0.162
M&G - Global Dividend Fund	0.000	0.120
Schroder - Income Maximiser Fund	0.000	0.373
Scape Group (Ltd) shares	0.425	0.200
<b>From Investments Held at Year End</b>	<b>0.872</b>	<b>2.741</b>
<b>Total Dividends Received</b>	<b>0.872</b>	<b>2.741</b>

Financial Instrument Liabilities comprise loans and borrowings, PFI liabilities, finance lease liabilities and other liabilities at contract amounts.

### Current Financial Liabilities

	Carrying Value		Fair Value	
	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019
	£m	£m	£m	£m
Transferred Debt	0.000	(0.010)	0.000	(0.010)
Public Works Loan Board	(7.320)	(9.150)	(7.320)	(9.150)
Temporary Loans	(6.000)	(26.500)	(6.000)	(26.500)
Accrued Interest	(1.982)	(1.914)	(1.982)	(1.914)
<b>Current Loans and Borrowing</b>	<b>(15.302)</b>	<b>(37.574)</b>	<b>(15.302)</b>	<b>(37.574)</b>
Trade Creditors	(71.898)	(91.288)	(71.898)	(91.288)
PFI liability	(3.572)	(3.759)	(7.068)	(7.063)
Finance lease liability	(0.190)	(0.344)	(0.190)	(0.344)
<b>Current Financial Liabilities</b>	<b>(90.962)</b>	<b>(132.965)</b>	<b>(94.458)</b>	<b>(136.269)</b>

### Non-Current Financial Liabilities

	Note	Fair Value Level	Carrying Value		Fair Value	
			31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019
			£m	£m	£m	£m
Transferred Debt		2	(0.171)	(0.161)	(0.171)	(0.161)
Public Works Loan Board		2	(267.718)	(230.340)	(358.879)	(349.058)
Lender Option Borrower Option		2	(15.583)	(15.574)	(21.610)	(21.535)
<b>Non-Current Borrowing</b>			<b>(283.472)</b>	<b>(246.075)</b>	<b>(380.660)</b>	<b>(370.754)</b>
PFI liability	29	3	(67.469)	(63.710)	(77.805)	(75.014)
Finance lease liability	29	*	(4.125)	(5.009)	(4.125)	(5.009)
<b>Non-Current Financial Liabilities</b>			<b>(355.066)</b>	<b>(314.794)</b>	<b>(462.590)</b>	<b>(450.777)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

\* Fair value disclosure not required

## Financial Liabilities by Measurement Classification

	Carrying Value		Fair Value	
	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2019 £m
Amortised Costs	(446.028)	(447.759)	(557.048)	(587.046)
Fair Value through Profit or Loss	0.000	0.000	0.000	0.000
<b>Total Financial Liabilities</b>	<b>(446.028)</b>	<b>(447.759)</b>	<b>(557.048)</b>	<b>(587.046)</b>

The Council has 51 loans with the Public Works Loan Board (PWLB) at 31 March 2019. The start date of the earliest of these PWLB loans was September 1995. This loan was for a period of 24 years. The most recent start date was November 2007, for a period of 30 years. During the year two loans with the PWLB were repaid. The average loan rate across the loans is 4.69%. The average discount rate is 2.05%.

At 31 March 2019 the Council held one LOBO loan and two long term loans (Barclays waived their LOBO options in June 2016):

- £5.000m Dexia LOBO loan, commencing in August 2004, for 35 years, at a fixed rate of 4.5%. The fair value is £7.078m, using a discount rate of 2.249%.
- £5.000m Barclays loan commencing in October 2003, for 40 years, with an introductory rate of 3.2% for four years, then 4.875% thereafter. The carrying value of the loan at 31 March 2019 is £5.353m and the fair value is £7.430m, using a discount rate of 2.378%.
- £5.000m Barclays loan, commencing in February 2005, for 40 years, with an introductory interest rate of 3.7% for four years, then 4.5% thereafter. A discount of £0.103m applied at the commencement of the loan. The carrying value of the loan at 31 March 2019 is £5.221m and the fair value is £7.027m, using a discount rate of 2.410%.

PFI and Finance Lease Liabilities are not quoted on active markets. The discounted cash flow method has been used to calculate the fair value of PFI liabilities. Refer to Note 49 for further details. The average interest rate across the Council's 18 finance leases is 10.61%. Refer to Note 48 for further details.

## Interest Income and Expenditure

The following income and expenditure have been recognised in the CIES in relation to interest on financial instruments:

	Income/(Expense)	
	2017-18 £m	2018-19 £m
Interest Income	3.977	2.799
Interest Expense	(20.543)	(19.339)
<b>Net Interest Income/(Expense)</b>	<b>(16.566)</b>	<b>(16.540)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Financial Instrument Gains/Losses

The following gains and losses have been recognised in the CIES in relation to the carrying value of the Council's financial assets:

Financial Assets	Net Gains/(Losses)	
	2017-18 £m	2018-19 £m
Amortised Costs	0.000	0.000
Fair Value through Profit or Loss	0.000	0.000
FVOCI - Gains/Losses Recognised in Other Comprehensive Income	(0.303)	(1.453)
FVOCI - Accumulated Gains/Losses Reclassified to Surplus Deficit on Provision of Service	0.000	0.000
<b>Total Gains/(Losses)</b>	<b>(0.303)</b>	<b>(1.453)</b>

There were no gains or losses arising from financial assets measured at amortised cost.

Gains and losses have been recognised in the CIES in relation to the carrying value of the Council's financial liabilities as follows:

Financial Liabilities	Net Gains/(Losses)	
	2017-18 £m	2018-19 £m
Amortised Costs	(5.442)	29.224
Fair Value through Profit or Loss	0.000	0.000
<b>Total Gains/(Losses)</b>	<b>(5.442)</b>	<b>29.224</b>

A gain of £29.224m was recognised in 2018-19 because of a change in the measurement of the liability of the Council's loans which have previously been restructured. This change was required on adoption of IFRS 9 Financial Instruments for the first time in 2018-19. Refer to Note 7 for further details.

A loss of £5.442m was recognised in 2017-18 due to the Council's decision to redeem two Commerzbank LOBO loans before their maturity. The loss represents the premium of the consideration the Council paid to terminate the agreements over the carrying value of the loans.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Fee Income and Expenses

	Income/(Expense)	
	2017-18 £m	2018-19 £m
Fees From Instruments not at FVPL	(0.035)	(0.036)
Fees From Investing Activities on Behalf of Other Parties	0.017	0.028
<b>Net Fee Income/(Expense)</b>	<b>(0.018)</b>	<b>(0.008)</b>

The Council incurred £0.036m in brokerage fees to execute transactions relating to its financial instruments. £0.028m of income was earned from banking and treasury management services provided to the Derbyshire Pension Fund and Local Enterprise Partnership (LEP) for Derby, Derbyshire, Nottingham and Nottinghamshire.

## Financial Instruments – Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Certificates of deposit and forward loan contracts have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of LOBO loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are split by their level in the fair value hierarchy:

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

### 24. INVENTORIES

	2017-18			2018-19	
	Highways £m	Work in progress £m	Other £m	Highways £m	Other £m
<b>1 April</b>	<b>1.501</b>	<b>0.100</b>	<b>1.025</b>	<b>1.048</b>	<b>1.018</b>
Purchase of new stock	1.751	9.692	1.940	1.433	2.339
Stock issued	(2.204)	(8.762)	(1.809)	(1.472)	(2.139)
Stock written off	0.000	0.000	(0.139)	0.000	(0.015)
<b>31 March</b>	<b>1.048</b>	<b>1.030</b>	<b>1.018</b>	<b>1.009</b>	<b>1.203</b>
<b>Total</b>			<b>3.096</b>		<b>2.212</b>

At 31 March 2018 work to deliver property repairs and maintenance to external customers, which had commenced but was incomplete at the balance sheet date, amounting to £1.030m, was recognised as Work in Progress. As at 31 March 2019 a balance of £0.769m in respect of such work has been recognised as contract assets within debtors, in accordance with the adoption of IFRS 15 Revenue from Contracts with Customers.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 25. CURRENT DEBTORS

The current debtor balance can be analysed into the following categories:

31 Mar 2018 £m		31 Mar 2019 £m
10.036	From Other Local Authorities	8.491
3.522	From NHS Bodies	6.038
7.716	From Government Departments	8.915
35.679	From Other Sundry Debtors	54.047
<b>56.953</b>	<b>Total amount owed to the Council</b>	<b>77.491</b>
0.083	To Other Local Authorities	0.107
0.005	To Government Departments	0.005
2.968	To Other Sundry Debtors	5.213
<b>3.056</b>	<b>Total paid in advance by the Council</b>	<b>5.325</b>
<b>60.009</b>	<b>Total Current Debtors</b>	<b>82.816</b>
(2.147)	Less Allowance for Bad Debts	(2.711)
<b>57.861</b>	<b>Carrying Value of Current Debtors</b>	<b>80.105</b>

### 26. CASH AND CASH EQUIVALENTS

31 Mar 2018 £m		31 Mar 2019 £m
28.734	County Fund Bank Account Balance	25.726
<b>28.734</b>	<b>Cash Book for County Fund Account</b>	<b>25.726</b>
0.332	Schools Cash Income Account Balance	1.424
<b>0.332</b>	<b>Cash Book for Schools Cash Account</b>	<b>1.424</b>
<b>29.066</b>	<b>Total Cash Book Balance</b>	<b>27.150</b>
4.145	Amounts held by Bank Account Schools	2.442
0.169	Amounts held in Petty Cash Tins	0.193
0.349	Amounts held in Imprest Bank Accounts	0.370
(0.002)	Amounts held in Other Bank Accounts	(0.002)
<b>33.727</b>	<b>Total Cash Balance</b>	<b>30.153</b>
1.523	Bank instant-access deposit accounts	1.519
10.001	Short-term deposits	10.028
0.000	Cash investment loss allowance	(0.041)
<b>45.251</b>	<b>Total Cash and Cash Equivalents</b>	<b>41.659</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 27. CREDITORS

The creditor balance can be analysed into the following categories:

31 Mar 2018 £m		31 Mar 2019 £m
(6.485)	To Other Local Authorities	(7.224)
(2.728)	To NHS Bodies	(2.258)
(19.295)	To Government Departments	(17.199)
(3.243)	To Inter-Group Organisations	(3.899)
(67.596)	To Other Sundry Creditors	(88.655)
<b>(99.347)</b>	<b>Amounts Owing by the Council</b>	<b>(119.235)</b>
(0.569)	From Other Local Authorities	(0.697)
(3.948)	From NHS Bodies	(3.089)
(2.936)	From Government Departments	(3.035)
(3.610)	From Other Sundry Creditors	(3.876)
<b>(11.063)</b>	<b>Income in Advance to the Council</b>	<b>(10.697)</b>
<b>(110.410)</b>	<b>Carrying Value of Creditors</b>	<b>(129.932)</b>

### 28. PROVISIONS

	Insurance Fund	Exit Packages	Other	Total
	£m	£m	£m	£m
1 April 2017	6.308	5.829	1.293	13.430
New Provisions	2.588	0.000	0.754	3.342
Utilisation of Provision	(1.693)	(1.552)	(0.447)	(3.692)
Reversal of Provision	0.000	0.000	(0.519)	(0.519)
<b>1 April 2018</b>	<b>7.203</b>	<b>4.277</b>	<b>1.081</b>	<b>12.561</b>
New Provisions	2.361	0.000	3.356	5.717
Utilisation of Provision	(2.064)	(0.857)	(0.588)	(3.509)
Reversal of Provision	0.000	0.000	(0.196)	(0.196)
<b>31 March 2019</b>	<b>7.500</b>	<b>3.421</b>	<b>3.653</b>	<b>14.573</b>

#### Provision for Voluntary Redundancy

Estimated costs associated with future voluntary redundancies include an element for schools. The provision has been created on a global estimation of the cuts required to achieve the savings targets. There is uncertainty around which employees will leave the Council and at what time, which will determine the true cost.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Insurance Fund Provision

The Insurance Fund meets the estimated 'excess' of the Council's insurance policies, with amounts held in either the insurance provision or the insurance reserve. The total Insurance Fund balance is £27.570m (31 March 2018: £27.830m). The provision of £7.500m represents obligations as at 31 March as a result of past claims. The reserve balance of £20.070m covers claims not yet made where a liability is expected to exist.

### 29. OTHER NON-CURRENT LIABILITIES

31 Mar 2018 £m		31 Mar 2019 £m
(633.745)	Pensions Liability - LGPS	(824.567)
(65.091)	Pensions Liability - Teachers	(64.712)
(17.361)	PFI Phase 1	(16.115)
(21.913)	PFI Phase 2	(20.764)
(28.195)	PFI - BSF	(26.831)
(3.112)	Finance Lease - Joint Service Centre	(2.945)
(1.014)	Finance Lease - Other Leases	(2.065)
<b>(770.431)</b>		<b>(957.999)</b>

Further information about the leases, PFI scheme and pension liabilities can be found in notes 48 to 51.

### 30. USABLE RESERVES

Usable reserves relate to cash backed reserves that are available to finance future services or capital expenditure. Below are details of the Council's usable reserves and their purpose:

- **General Reserve** – revenue reserves available for future service delivery.
- **Revenue Earmarked Reserves** – revenue reserves available for future service delivery, however future spending pressures have been identified for which they will be used.
- **Usable Capital Receipts** – proceeds from the sale of Property, Plant and Equipment assets which are available to finance future capital developments.
- **Capital Grants Unapplied** – unused grant receipts for capital developments.

Details of the Council's usable reserves can be found in the Movement in Reserves Statement and Notes 15 and 31.



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 31. TRANSFERS TO / FROM EARMARKED RESERVES

	1 Apr	Transfers		31 Mar	Transfers		31 Mar
	2017	In	Out	2018	In	Out	2019
	£m	£m	£m	£m	£m	£m	£m
<b>Adult Care</b>							
Older People's Housing Strategy	0.000	0.000	0.000	0.000	(22.676)	0.000	(22.676)
Other reserves	(7.221)	0.000	3.039	(4.182)	(0.098)	3.997	(0.283)
<b>Sub Total</b>	<b>(7.221)</b>	<b>0.000</b>	<b>3.039</b>	<b>(4.182)</b>	<b>(22.774)</b>	<b>3.997</b>	<b>(22.959)</b>
<b>Council Services</b>							
Budget Management	(12.500)	(24.603)	16.253	(20.850)	(22.282)	12.340	(30.792)
Loan Modification Gains/Losses	0.000	0.000	0.000	0.000	(29.224)	0.784	(28.440)
Insurance and Risk Management	(19.953)	(0.674)	0.000	(20.627)	(0.086)	0.643	(20.070)
Revenue Contributions to Capital	(7.495)	(6.533)	7.495	(6.533)	(17.081)	6.533	(17.081)
Planned Building Maintenance	0.000	(7.073)	0.556	(6.517)	(1.200)	1.435	(6.282)
Business Rates Strategic Investment Fund	0.000	0.000	0.000	0.000	(4.889)	0.000	(4.889)
Uninsured Financial Loss	(13.000)	0.000	0.000	(13.000)	0.000	9.500	(3.500)
PFI Phase 1	(3.316)	(0.011)	0.117	(3.210)	(0.211)	0.075	(3.346)
Computer Purchasing	(4.794)	(0.976)	0.847	(4.923)	(0.100)	1.808	(3.215)
Change Management	(5.789)	0.000	1.656	(4.133)	(0.097)	1.851	(2.379)
Property DSO	(3.359)	(2.273)	2.677	(2.955)	(1.693)	2.947	(1.701)
Other reserves	(24.061)	(6.468)	17.974	(12.555)	(10.391)	9.537	(13.409)
<b>Sub Total</b>	<b>(94.267)</b>	<b>(48.611)</b>	<b>47.575</b>	<b>(95.303)</b>	<b>(87.254)</b>	<b>47.453</b>	<b>(135.104)</b>
<b>Economic Development and Regeneration</b>							
D2 Growth Fund	(0.600)	0.000	0.400	(0.200)	0.000	0.000	(0.200)
Markham Environment Centre	(0.114)	0.000	0.000	(0.114)	0.000	0.000	(0.114)
Skills Training	(0.101)	0.000	0.000	(0.101)	0.000	0.000	(0.101)
Other reserves	(0.968)	(0.005)	0.400	(0.572)	(0.009)	0.163	(0.418)
<b>Sub Total</b>	<b>(1.783)</b>	<b>(0.005)</b>	<b>0.800</b>	<b>(0.987)</b>	<b>(0.009)</b>	<b>0.163</b>	<b>(0.833)</b>
<b>Health and Communities</b>							
Public Health Grant	(6.361)	(1.636)	1.186	(6.811)	(2.790)	2.000	(7.601)
Domestic Abuse	0.000	0.000	0.000	0.000	(2.000)	0.000	(2.000)
S256/External Funding	(0.230)	(0.140)	0.027	(0.343)	0.000	0.089	(0.254)
Other reserves	(1.572)	(0.090)	1.298	(0.364)	(0.097)	0.024	(0.437)
<b>Sub total</b>	<b>(8.163)</b>	<b>(1.866)</b>	<b>2.511</b>	<b>(7.518)</b>	<b>(4.887)</b>	<b>2.113</b>	<b>(10.292)</b>
<b>Highways, Transport and Infrastructure</b>							
Prior Year Underspends	(4.197)	(2.489)	0.630	(6.056)	(3.690)	0.460	(9.286)
Broadband	(6.121)	0.000	0.691	(5.430)	(0.691)	2.190	(3.931)
Winter Maintenance	(2.000)	0.000	0.000	(2.000)	0.000	0.000	(2.000)
Road Safety Public Service Agreement (PSA)	(1.634)	0.000	0.417	(1.217)	0.000	0.035	(1.182)
Derby and Derbyshire Road Safety Partnership Reserve	(0.842)	(0.300)	0.337	(0.805)	(0.027)	0.247	(0.585)
IT Reserve	(1.016)	0.000	0.462	(0.554)	(0.110)	0.105	(0.559)
Waste Recycling Initiatives	(0.391)	0.000	0.000	(0.391)	0.000	0.000	(0.391)
Other reserves	(3.839)	(0.175)	1.008	(3.006)	(0.307)	1.514	(1.799)
<b>Sub Total</b>	<b>(20.040)</b>	<b>(2.964)</b>	<b>3.545</b>	<b>(19.459)</b>	<b>(4.825)</b>	<b>4.551</b>	<b>(19.733)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	1 Apr	Transfers		31 Mar	Transfers		31 Mar
	2017	In	Out	2018	In	Out	2019
	£m	£m	£m	£m	£m	£m	£m
<b>Strategic Leadership, Culture and Tourism</b>							
Policy & Research	(0.582)	(0.839)	0.129	(1.292)	0.000	0.238	(1.054)
Prior Year Underspends	(1.076)	(0.579)	0.257	(1.398)	(0.008)	0.493	(0.913)
Derbyshire Challenge Fund	(0.870)	(0.557)	0.749	(0.678)	(0.192)	0.304	(0.566)
Library Restructure	0.000	0.000	0.000	0.000	(0.429)	0.000	(0.429)
High Needs Strategic Funding	0.000	(0.600)	0.000	(0.600)	0.000	0.358	(0.242)
Derwent Valley Mills World Heritage Site	(0.178)	(0.038)	0.000	(0.216)	0.000	0.023	(0.193)
Other reserves	(1.781)	(0.149)	0.242	(1.689)	(0.068)	1.161	(0.596)
<b>Sub Total</b>	<b>(4.487)</b>	<b>(2.763)</b>	<b>1.377</b>	<b>(5.873)</b>	<b>(0.697)</b>	<b>2.577</b>	<b>(3.993)</b>
<b>Young People</b>							
Schools Balances	(35.434)	(5.644)	9.775	(31.303)	(5.406)	10.666	(26.043)
Dedicated Schools Grant (DSG)	(8.375)	(2.973)	0.393	(10.955)	0.000	4.367	(6.588)
Tackling Troubled Families	(4.497)	(1.926)	2.262	(4.161)	(2.831)	2.909	(4.083)
Prior Year Underspends	(0.853)	0.000	0.000	(0.853)	0.000	0.107	(0.746)
School Rates Refunds	0.000	(0.399)	0.000	(0.399)	(0.201)	0.000	(0.600)
Primary Teacher Pool Premium	(0.688)	(0.511)	0.688	(0.511)	(0.496)	0.511	(0.496)
Youth Activity Grants	0.000	(0.375)	0.000	(0.375)	0.000	0.045	(0.330)
Foster Carer Adaptations	(0.415)	(0.131)	0.140	(0.406)	(0.025)	0.169	(0.262)
Unaccompanied Asylum Seeking Children	(0.551)	0.000	0.487	(0.064)	(0.179)	0.000	(0.243)
School Organisation Fund	0.000	0.000	0.000	0.000	(0.230)	0.000	(0.230)
Care Leavers Internships	(0.271)	0.000	0.056	(0.215)	0.000	0.079	(0.136)
Other reserves	(15.366)	(1.340)	11.697	(5.009)	(0.181)	4.408	(0.782)
<b>Sub Total</b>	<b>(66.450)</b>	<b>(13.299)</b>	<b>25.498</b>	<b>(54.251)</b>	<b>(9.549)</b>	<b>23.261</b>	<b>(40.539)</b>
<b>Overall Totals</b>	<b>(202.410)</b>	<b>(69.507)</b>	<b>84.345</b>	<b>(187.573)</b>	<b>(129.995)</b>	<b>84.115</b>	<b>(233.453)</b>

### 32. UNUSABLE RESERVES

The balance of unusable reserves is made up of a number of adjustment accounts, none of which are available to finance future spending. The reserves that make up the balance are detailed below.

31 Mar 2018		31 Mar 2019
£m		£m
1,066.765	Revaluation Reserve	826.988
721.854	Capital Adjustment Account	605.363
(5.549)	Financial Instruments Adjustment Account	(5.351)
0.000	Financial Instruments Revaluation Reserve	(1.756)
0.000	Deferred Capital Receipts Reserve	0.655
(698.836)	Pensions Reserve	(889.279)
0.833	Collection Fund Adjustment Account	2.741
(6.490)	Accumulated Absences Account	(7.950)
<b>1,078.577</b>	<b>Balance at 31 March</b>	<b>531.411</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Revaluation Reserve

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

	Note	Carrying Value £m	Historic Cost £m	Revaluation Reserve £m
<b>31 March 2019</b>				
Property, Plant and Equipment	16	1,860.060	1,079.526	780.534
Heritage Assets	18	50.301	4.437	45.864
Assets Held for Sale	21	1.953	1.363	0.590
		<b>1,912.314</b>	<b>1,085.326</b>	<b>826.988</b>
<b>31 March 2018</b>				
Property, Plant and Equipment	16	2,186.076	1,170.558	1,015.518
Heritage Assets	18	54.993	4.082	50.911
Assets Held for Sale	21	0.730	0.393	0.337
		<b>2,241.799</b>	<b>1,175.033</b>	<b>1,066.766</b>

### Capital Adjustment Account

This reserve includes timing differences arising between the financing of purchasing new, or enhancing, Council assets and the utilising of those assets in the Council's accounts (known as depreciation). It is not available for future spending.

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the account to manage premiums paid and discounts received on early redemption of loans. Premiums are debited and discounts are credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of General Reserve to the account in the Movement in Reserves Statement. Over time, the expense is posted back to General Reserve in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case, the balance on the Account at 31 March will be charged to the General Reserves over the next 40 years.

### Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the cumulative gains and losses relating to the valuation of financial assets held at fair value through other comprehensive income. When the underlying financial assets are de-recognised any gains or losses held in this reserve are credited or expensed to the Surplus or Deficit on Provision of Services.

## 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.

### Pensions Reserve

The Pensions Reserve absorbs the timing differences from the different arrangements for accounting for post-employment benefits and funding benefits in accordance with statute. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as benefits are earned by employees, updating the liabilities to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require a benefit earned to be financed as the Council makes employer's contributions or pays any pensions for which it is directly responsible. The debit balance on the Reserve therefore shows a shortfall in the benefits earned by 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.

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as they fall due from Council Tax and Business Rates payers, compared with the statutory arrangements for paying across amounts to the General Reserve from the Collection Funds.

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Reserve 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 Reserve Balance is neutralised by transfers to or from the account.

## 33. EXTERNAL AUDIT COSTS

2017-18 £m		2018-19 £m
	<b>Audit Fees</b>	
0.125	External Audit Fees	0.097
	External Audit Fees -	
0.000	Additional Fees for Prior Year	0.015
(0.019)	Public Sector Audit Appointments Rebate	0.000
0.004	External Audit Fees - Teachers' Pension Scheme	0.004
<b>0.110</b>		<b>0.116</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 34. MEMBERS' ALLOWANCES

Payments made to the Council's elected Members during the year were:

2017-18		2018-19
£m		£m
0.998	Allowances	1.021
0.057	Expenses	0.055
<b>1.055</b>		<b>1.076</b>

### 35. OFFICERS' REMUNERATION

The definition of senior officer is:

- An officer whose salary is £150,000 or more.
- A statutory chief officer as per section 2(6) of the Local Government and Housing Act 1989.
- A non-statutory chief officer as per section 2(7) of the Local Government and Housing Act 1989.
- An officer reporting to the Head of Paid Service.

The following changes in respect of the Council's Senior Officers occurred during 2017-18 and 2018-19 and are relevant to the table of remuneration paid to the Council's Senior Officers below:

- The Chief Executive was made redundant and left the Council on 11 August 2017, receiving salary to that date and three months' salary in lieu of notice.
- The Assistant Chief Executive was made redundant and left the Council on 2 November 2017.
- The Strategic Director of Corporate Resources was made redundant and left the Council on 30 October 2017.
- The Commissioning, Communities and Policy department was established on 25 September 2017. A number of services were incorporated into the new department, including the Corporate Resources and Chief Executives Office departments and the following services from the Economy, Transport and Communities department; Libraries and Heritage, Community Safety and Trading Standards. A new post of Strategic Director of Commissioning, Communities and Policy was created and the current post holder took up the role on that date. On the creation of this department, the Economy, Transport and Communities department was renamed the Economy, Transport and Environment department.
- Upon the redundancy of the Chief Executive, it became necessary to allocate the statutory role of Head of Paid Service (HOPS) to another individual. At the same time an allowance of £10,000 per annum was created to remunerate whoever was currently undertaking the role.
- The Strategic Director of Economy, Transport and Communities was designated the Council's HOPS, on a temporary basis, from 14 August 2017 to 30 September 2017. The Strategic Director of Adult Care was designated the Council's HOPS from 1 October 2017, on a temporary basis until 11 April 2018.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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- The Strategic Director of Commissioning, Communities and Policy was permanently appointed as HOPS from 12 April 2018 and from that date no additional payment is to be made for undertaking this role. Officers reporting to the permanent HOPS are included in the Senior Officers' Remuneration table.
- Officers reporting to the temporary HOPS prior to the permanent appointment are not included.
- The posts reporting to the permanent HOPS are not new and did exist in 2017-18, their remuneration is not included in the table for 2017-18 as they were not classed as Senior Officers for the purpose of this note during that year. Their details were listed in the table of Council's employees earning above £50,000 in 2017-18.
- The former Strategic Director of Adult Care left the Council on 22 July 2018.
- The new Strategic director of Adult Care was appointed on 27 August 2018.
- The Acting Strategic Director of Adult Care was appointed on 21 January 2019.

## NOTES TO THE CORE FINANCIAL STATEMENTS

2017-18						2018-19			
Salary	Employer's Pension Contributions	Head of Paid Service	Compensation for Loss of Employment	Total Remuneration 2017-18		Salary	Employer's Pension Contributions	Head of Paid Service	Total Remuneration 2018-19
£	£	£	£	£		£	£	£	£
121,285	0	5,000	0	<b>126,285</b>	Strategic Director of Adult Care	38,855	0	306	<b>39,161</b>
0	0	0	0	<b>0</b>	Strategic Director of Adult Care	67,116	13,423	0	<b>80,539</b>
0	0	0	0	<b>0</b>	Acting Strategic Director of Adult Care	19,567	3,913	0	<b>23,480</b>
113,361	22,672	0	0	<b>136,033</b>	Strategic Director of Children's Services	118,438	23,688	0	<b>142,126</b>
62,664	12,533	0	0	<b>75,197</b>	Strategic Director of Commissioning, Communities and Policy	123,711	24,742	0	<b>148,453</b>
120,810	0	1,317	0	<b>122,128</b>	Strategic Director of Economy, Transport & Environment	123,711	0	0	<b>123,711</b>
95,082	19,016	0	0	<b>114,098</b>	Director of Finance and ICT	96,984	19,397	0	<b>116,381</b>
87,878	12,637	0	0	<b>100,515</b>	Director of Public Health	91,841	13,207	0	<b>105,048</b>
0	0	0	0	<b>0</b>	Director of Community Services	84,644	16,929	0	<b>101,573</b>
0	0	0	0	<b>0</b>	Director of Legal Services	76,079	15,215	0	<b>91,294</b>
0	0	0	0	<b>0</b>	Director of Organisation, Development and Policy	88,634	17,727	0	<b>106,361</b>
0	0	0	0	<b>0</b>	Director of Property	90,230	18,046	0	<b>108,276</b>
70,069	13,755	0	22,732	<b>106,556</b>	Strategic Director of Corporate Resources	0	0	0	<b>0</b>
50,468	0	0	124,694	<b>175,162</b>	Chief Executive	0	0	0	<b>0</b>
58,133	11,107	0	44,676	<b>113,916</b>	Assistant Chief Executive	0	0	0	<b>0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's employees (other than senior officers in the table above) earning above £50,000 during the year have been paid the following amounts:

2017-18			Remuneration Between:	2018-19		
No of Employees				No of Employees		
School Staff	Other	Total		School Staff	Other	Total
123	58	181	£50,000 and £54,999	115	98	213
136	46	182	£55,000 and £59,999	113	46	159
57	19	76	£60,000 and £64,999	72	21	93
36	3	39	£65,000 and £69,999	35	5	40
17	4	21	£70,000 and £74,999	9	2	11
13	2	15	£75,000 and £79,999	7	3	10
3	10	13	£80,000 and £84,999	4	7	11
3	2	5	£85,000 and £89,999	3	0	3
2	1	3	£90,000 and £94,999	2	2	4
1	1	2	£95,000 and £99,999	1	1	2
3	0	3	£100,000 and £104,999	1	0	1
0	0	0	£105,000 and £109,999	0	1	1
0	0	0	£110,000 and £114,999	1	0	1
0	0	0	£120,000 and £124,999	0	1	1
0	0	0	£125,000 and £129,999	0	1	1
0	0	0	£135,000 and £139,999	0	1	1
1	0	1	£155,000 and £159,999	0	0	0
0	0	0	£165,000 and £169,999	0	1	1
<b>395</b>	<b>146</b>	<b>541</b>		<b>363</b>	<b>190</b>	<b>553</b>

Remuneration includes gross income and compensation for loss of employment.

The number of 'Other' employees has increased in 2018-19 after the Council's Grade 14 employees on the top Pay Point received remuneration in excess of £50,000 for the first time.

### 36. TERMINATION BENEFITS

The Council has terminated the contracts of a number of employees in 2018-19, incurring liabilities of £1.869m (2017-18: £1.818m). The termination benefits are split by banding below:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
	actual	actual	actual	actual	actual	actual	actual	actual
							£m	£m
£0-£20k	95	72	66	47	161	119	0.783	0.717
£20k-£40k	5	7	13	8	18	15	0.467	0.403
£40k-£60k	2	1	1	2	3	3	0.135	0.141
£60k-£80k	0	1	2	0	2	1	0.153	0.067
£80k - £100k	0	1	0	0	0	1	0.000	0.081
£100k-£150k	1	3	0	1	1	4	0.125	0.460
£150k-£200k	0	0	1	0	1	0	0.155	0.000
	<b>103</b>	<b>85</b>	<b>83</b>	<b>58</b>	<b>186</b>	<b>143</b>	<b>1.818</b>	<b>1.869</b>

### 37. POOLED BUDGETS

The Council has two pooled budget arrangements, details of which are set out below.

#### Better Care Fund

	2018-19	Pool Share
Income	£m	%
Derbyshire County Council	32.857	34.38
NHS North Derbyshire CCG	21.492	22.49
NHS Southern Derbyshire CCG	19.070	19.96
NHS Hardwick Derbyshire CCG	12.526	13.11
NHS Erewash Derbyshire CCG	7.317	7.66
NHS Tameside & Glossop CCG	2.295	2.40
	<b>95.557</b>	<b>100.00</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<b>2018-19</b>
<b>Expenditure</b>	<b>£m</b>
CCG schemes for community health services	31.277
Disabled Facilities Grant	6.451
Equipment	6.061
Reablement	4.427
Joint working	6.548
Administration	0.390
Care Bill	2.058
Carers	1.962
Mental health	1.000
Support for people to remain out of hospital	10.477
Improved Better Care Fund	24.906
<b>Total Expenditure</b>	<b>95.557</b>
<b>Net position for Pool</b>	<b>0.000</b>

On 1 April 2015 the Derbyshire Better Care Fund (BCF) became operational. Derbyshire County Council are partners to the fund along with NHS Northern Derbyshire Clinical Commissioning Group, NHS Southern Derbyshire Clinical Commissioning Group, NHS Hardwick Clinical Commissioning Group, NHS Erewash Clinical Commissioning Group and NHS Tameside & Glossop Clinical Commissioning Group. The operation of the pool is ultimately managed by the Derbyshire Health and Wellbeing Board represented by members from each of the partners. The Fund operates as a Section 75 pooled budget and total agreed contributions to the pool are £95.557m. Derbyshire County Council's contribution towards the pool is £32.857m (34.38%).

The BCF aims to improve the provision of health and social care. All partners contribute to a pooled fund and the overarching objective of the fund is to support the integration of health and social care and align commissioning as agreed between the partners.

Under the agreement, the BCF Plan for Derbyshire is split into 2 areas:

- Contributions to a pooled fund by all partners and commissioned by Derbyshire County Council who are host and lead commissioner
- Commissioning of existing funded schemes directly by each partner.

### **Children with complex needs pooled budget arrangement**

The Children with complex needs pooled budget arrangement operates with North Derbyshire, South Derbyshire, Hardwick and Erewash CCGs.

The CCGs contribute 33% and the remainder is funded by the Council. Any surplus or deficit carries forward to meet next year's contributions, as required by the partnership agreement. Any unspent amounts are transferred to an Earmarked Reserve set up for this purpose.

## NOTES TO THE CORE FINANCIAL STATEMENTS

31 Mar 2018 £m		31 Mar 2019 £m
	<b>Funding provided to the pooled budget:</b>	
(3.404)	The Council	(4.115)
(1.677)	The Health Trust	(2.027)
	<b>Expenditure met by the pooled budget</b>	
3.404	The Council	4.115
1.677	The Health Trust	2.027
<b>0.000</b>	<b>(Surplus)/Deficit</b>	<b>0.000</b>
0.000	The Council's share of the (Surplus)/Deficit	0.000

### 38. TRUST FUNDS

Trust Funds are made up of donations or bequests made to the Council. These funds are not part of the Council's Accounts. Other funds include monies held for residents in the Council's residential homes.

2017-18  Total £m		2018-19		
		Trust Funds £m	Other Funds £m	Total £m
6.063	Opening Balance	1.074	4.787	5.861
1.018	Add Income	0.244	0.105	0.349
(1.219)	Less Expenditure	(0.026)	(1.881)	(1.907)
<b>5.861</b>	<b>Closing Balance</b>	<b>1.292</b>	<b>3.011</b>	<b>4.303</b>
	<b>The funds are represented by:</b>			
0.050	Investments	0.052	0.000	0.052
5.812	Cash & temporary loans	1.240	3.011	4.251
<b>5.861</b>	<b>Total Assets</b>	<b>1.292</b>	<b>3.011</b>	<b>4.303</b>
62	No of Funds (actual not £m)	49	8	57

### 39. INCOME FROM CONTRACTS WITH SERVICE RECIPIENTS

A service recipient is a party that has contracted with the Council to obtain goods or services which are the output of the Council's normal operating activities. Such a contract may be in writing, be made orally or be in accordance with customary business practice. The table below identifies income amounts in the CIES arising from contracts with service recipients.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Income	
	2017-18	2018-19
Type of Goods/Service	£m	£m
<b>Adult Care</b>		
Residential Care Homes	27.959	29.281
Nursing Homes	8.701	8.930
Co-funding Charge	8.817	8.837
Direct Care Trading	1.299	0.968
Shared Lives	0.563	0.000
Other	0.162	0.191
<b>Sub Total</b>	<b>47.501</b>	<b>48.207</b>
<b>Council Services</b>		
Property Repairs, Maintenance, Cleaning and Facilities Management	4.050	4.963
PFI Services to Academies	4.848	2.813
Pension Fund Administration	2.425	2.189
Registrar Services	1.466	1.424
IT Support	0.101	0.289
Other	1.160	2.233
<b>Sub Total</b>	<b>14.050</b>	<b>13.911</b>
<b>Economic Development and Regeneration</b>		
Other	0.008	0.009
<b>Sub Total</b>	<b>0.008</b>	<b>0.009</b>
<b>Health and Communities</b>		
Other	0.159	0.118
<b>Sub Total</b>	<b>0.159</b>	<b>0.118</b>
<b>Highways, Transport and Infrastructure</b>		
Inspection Fees (S38/S278 Highways Act)	2.205	2.832
Vehicle Maintenance	1.393	1.331
New Roads and Street Works Act Fees	1.092	1.199
Pay and Display Parking	0.580	0.643
Highways Maintenance and Design	0.641	0.608
Countryside Shop Merchandise	0.307	0.344
Cross Boundary Bus Services	0.292	0.279
Land Searches	0.236	0.241
Highways & Lighting Works	0.213	0.232
Other	0.717	0.692
<b>Sub Total</b>	<b>7.676</b>	<b>8.401</b>
<b>Strategic Leadership, Culture and Tourism</b>		
Other	0.445	0.405
<b>Sub Total</b>	<b>0.445</b>	<b>0.405</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Young People</b>		
Catering	6.263	8.222
Early Intervention	0.899	0.949
Adult Education	0.516	0.521
Behaviour Support	0.236	0.403
Sport/Outdoor Education	0.998	0.400
Services for Teenagers	0.260	0.302
Excluded Pupils	0.214	0.125
Other	1.312	1.511
<b>Sub Total</b>	<b>10.698</b>	<b>12.433</b>
<b>Overall Total</b>	<b>80.537</b>	<b>83.484</b>

For the purpose of this analysis, income received by schools has been excluded.

Amounts included in the Balance Sheet for contracts with service recipients:

<b>31 Mar 2018</b>		<b>31 Mar 2019</b>
<b>£m</b>		<b>£m</b>
7.261	Receivables	8.155
1.126	Contract Assets	0.892
(1.874)	Contract Liabilities	(1.427)
<b>6.513</b>	<b>Total Included in Net Assets</b>	<b>7.620</b>

Receivables and Contract Assets are included within amounts owed to the Council in the Debtors analysis (Note 25).

Contract Liabilities are included within Income in Advance to the Council in the Creditors analysis (Note 27).

£1.030m of the contract asset value as at 31 March 2018 was included as work in progress in the inventories analysis (Note 24).

Changes in the contract assets and contract liabilities balances during the year are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2018-19	
	Contract Assets £m	Contract Liabilities £m
Cash received before obligations fulfilled	0.000	(1.427)
Obligations relating to contract liabilities at the start of the year fulfilled	0.000	1.874
Obligations fulfilled before payment is due	0.892	0.000
Transfers from Contract Assets to Receivables as payment became due	(1.126)	0.000
<b>Movement in Contract Assets and Liabilities</b>	<b>(0.234)</b>	<b>0.447</b>
Contract Assets and Liabilities at the start of the year	1.126	(1.874)
<b>Contract Assets and Liabilities at the end of the year</b>	<b>0.892</b>	<b>(1.427)</b>

As this is the first year of adoption of IFRS 15, comparative year information has not been provided.

The value of the contract liabilities presented at the end of the year represents the value of income that is expected to be recognised in the future, relating to obligations that are unsatisfied (or partially unsatisfied) at the end of the year. All amounts are expected to be realised no later than one year from the year ended 31 March 2019.

The Council only recognises income at an amount that corresponds directly with the value to the service recipients of the Council's performance to the end of the year.

Performance obligations are deemed to be satisfied over time, as opposed to at a point in time, in respect of the following significant income streams:

- Residential Care, Nursing Home and Co-funding charges
- PFI Services to Academies
- Pension Fund Administration

This is a faithful depiction as these services are delivered to, and the benefits consumed by, the service recipients simultaneously. The Council has a right to receive fixed payments from service users for each day of service provided, therefore it recognises income to the amount that it has the right to invoice according to the duration of the service provision.

Performance obligations are also deemed to be satisfied over time, as opposed to at a point in time, in respect of the following significant income stream:

- Property Repairs, Maintenance, Cleaning and Facilities Management

## NOTES TO THE CORE FINANCIAL STATEMENTS

This is a faithful depiction as the Council has an enforceable right to receive income for performance completed to date. The Council recognises income based on the costs incurred to satisfy the performance obligations.

Performance obligations are deemed to be satisfied at a point in time in respect of the following significant income streams:

- Inspections under Section 38 and 278 of the Highways Act
- Catering

In respect of these services, income is only recognised when the contracted work has been completed.

### 40. DEDICATED SCHOOLS GRANT (DSG)

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). The grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2018.

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 in-year adjustment comprises a deduction from the 2018-19 grant payments for Early Years provision during 2017-18, following final calculation of the amount due from the Department for Education. This has been covered by use of reserves.

Actual central expenditure includes items that have been transferred to an earmarked reserve but remain unspent as at the end of the year. Details of the deployment of the DSG receivable for 2018-19 are as follows:

	2018-19		
	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2018-19 before Academy recoupment			543.896
Less Academy figure recouped for 2018-19			(163.558)
<b>Total DSG after Academy recoupment for 2018-19</b>			<b>380.338</b>
Brought forward from 2017-18			10.036
Carry forward to 2019-20 agreed in advance			(7.990)
<b>Agreed initial budgeted distribution in 2018-19</b>	<b>61.329</b>	<b>321.055</b>	<b>382.384</b>
In year adjustments	(1.579)	0.000	(1.579)
<b>Final budgeted distribution for 2018-19</b>	<b>59.750</b>	<b>321.055</b>	<b>380.805</b>
Less Actual central expenditure	(60.577)		(60.577)
Less Actual ISB deployed to Private, Voluntary and Independent Settings for Nursery Education		(38.499)	(38.499)
Less Actual ISB deployed to schools		(282.537)	(282.537)
<b>Carry-forward to 2019-20</b>	<b>(0.827)</b>	<b>0.019</b>	<b>(0.808)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

DSG grant income in Note 41 below is the net of 'Total DSG after Academy Recoupment for 2018-19' and 2018-19 'In-year Adjustments' in the table above.

### 41. GRANT INCOME

Revenue Grants		Income	
		2017-18	2018-19
		£m	£m
Dedicated Schools Grant (DSG)	DfE	403.203	378.759
Revenue Support Grant	MHCLG	44.056	0.000
Public Health Grant	DoH	41.618	40.548
Pupil Premium Grant	DfE	22.390	20.415
Sixth Form Funding	DfE	11.466	8.982
Adult and Community Learning	BIS	6.109	5.790
Universal Free School Meals for Infant Pupils	ESFA	8.021	8.372
Disabled Facilities Grant	MHCLG	5.966	6.451
Troubled Families Initiative	MHCLG	1.926	2.179
Asylum Seekers	HO	1.007	1.367
School Improvement	DfE	0.693	1.154
Teachers Pay Grant	DfE	0.000	1.529
PE and Sport Grant	ESFA	4.440	5.263
Music Service Grant	Arts	1.400	1.403
Other Grants	Various	6.183	6.091
<b>Total Departmental</b>		<b>558.478</b>	<b>488.302</b>
Education Services Grant	DfE	2.218	0.000
Business Rates Compensation	MHCLG	2.723	13.642
Private Finance Initiative	ESFA	10.504	10.504
Adult Social Care Grant	DoH	3.340	2.267
New Homes Bonus	MHCLG	2.497	2.058
Improved Better Care Fund	MHCLG	18.219	24.906
Independent Living Fund		2.699	2.614
Winter Pressures		0.000	3.627
Levy Fund Surplus		0.000	1.704
Transition Grant		1.428	0.000
Other Grants	Various	2.992	1.863
<b>Total Corporate Income</b>		<b>46.618</b>	<b>63.186</b>
<b>Total Grants</b>		<b>605.097</b>	<b>551.488</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Grants		Income	
		2017-18	2018-19
		£m	£m
Highways Capital Maintenance	DfT	18.497	15.273
Capital Maintenance Grant	EFA	9.364	8.632
Lottery Funding		8.925	3.507
Local Growth Fund*		32.470	(13.302)
Integrated Transport	DfT	3.644	3.644
Basic Need Grant	EFA	3.341	12.680
Devolved Formula Capital	DFE	2.111	4.861
Digital Derbyshire	BDUK	1.867	0.000
Pot Hole Funding	DfT	5.331	10.450
Highways Maintenance Incentive Fund	DfT	0.000	3.206
National Productivity Investment Fund	DfT	0.000	2.450
A61 Corridor	DfT	0.000	2.051
Safer Roads Fund	DfT	0.000	1.180
Other Capital Grants	Various	11.556	19.662
		<b>97.106</b>	<b>74.294</b>

\*Using the freedom and flexibilities given to LEP Accountable Bodies, the Council utilised Local Growth Fund underspends during 2017-18 and 2018-19 to fund its capital programme. By the end of 2018-19, the LEP had overspent their annual Local Growth Fund allocation by £13.302m and the Council repaid this amount.

### 42. CASH FLOW – INVESTING ACTIVITIES

2017-18 £m		2018-19 £m
(106.902)	Purchase of Non-Current Assets	(96.731)
(653.671)	Purchase of New Investments	(797.611)
2.260	Proceeds from Sale of Non-Current Assets	5.535
98.952	Capital Grants Received	72.737
663.795	Investments Redeemed	778.166
<b>4.434</b>		<b>(37.904)</b>

### 43. CASH FLOW – FINANCING ACTIVITIES

2017-18 £m		2018-19 £m
(151.197)	Repay Amounts Borrowed	(283.075)
(3.340)	Principal Repayment on PFI and Leases	(2.536)
126.420	New Short Term Loans	296.250
<b>(28.117)</b>		<b>10.639</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 44. CASH FLOW – OPERATING ACTIVITIES

2017-18 £m		2018-19 £m
(574.375)	Payments to and on behalf of employees	(542.954)
(629.405)	Other Operating Payments	(625.520)
295.251	Council Tax	303.125
106.714	Business Rates	154.162
44.056	Revenue Support Grant	0.000
562.621	Other Revenue Grants	550.675
253.677	Other Income	197.614
<b>58.539</b>	<b>Operating Costs of Providing Services</b>	<b>37.102</b>
(20.901)	External Interest Paid	(14.261)
(5.245)	Interest on PFI and Finance Leases	(4.154)
4.126	Interest Received	2.906
0.447	Dividends Received	2.077
<b>36.968</b>		<b>23.670</b>

### 45. RECONCILIATION OF NET SURPLUS/(DEFICIT) ON THE CIES TO THE OPERATING ACTIVITIES NET CASH FLOW

2017-18 £m		Note	2018-19 £m
<b>(222.586)</b>	<b>Surplus/(Deficit) on the Provision of Services</b>		<b>(249.476)</b>
	<b>Non Cash Transactions:</b>		
46.303	Depreciation	15	42.569
30.172	Impairment	15	30.544
58.565	Movement in Pension Liability	51	53.006
1.756	Adjustment for Collection Fund		(1.907)
0.000	Loan Modification Gains and Losses		(29.224)
14.494	Movement in Revenue Debtors		(6.992)
0.706	Movement in Loss Allowances		1.077
2.675	Movement in Revenue Creditors		7.139
(0.483)	Movement in Inventories	24	0.884
(0.870)	Movement in Provisions	28	2.012
<b>153.318</b>	<b>Total Non Cash Transactions</b>		<b>99.109</b>
	<b>Items Classified Elsewhere</b>		
188.107	Net charge for Disposal of Non-Current Assets	6	233.214
15.231	Revenue Expenditure Funded from Capital Under Statute	15	15.117
(97.106)	Capital Grants	41	(74.294)
<b>36.964</b>			<b>23.670</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 46. MOVEMENT IN CASH RECONCILED TO THE MOVEMENT IN NET DEBT

	31 Mar 2018 £m	31 Mar 2019 £m	Movement £m
Current Investments	166.415	145.999	(20.416)
Non Current Investments	60.655	98.665	38.010
Cash and Cash Equivalents	45.251	41.659	(3.592)
Current Borrowing	(15.303)	(37.574)	(22.271)
Non Current Borrowing	(283.471)	(246.075)	37.396
PFI and Finance Lease Liabilities	(71.595)	(68.719)	2.876
	<b>(98.048)</b>	<b>(66.045)</b>	<b>32.003</b>

	31 Mar 2017 £m	31 Mar 2018 £m	Movement £m
Current Investments	178.485	166.415	(12.070)
Non Current Investments	58.190	60.655	2.465
Cash and Cash Equivalents	31.971	45.251	13.280
Current Borrowing	(24.608)	(15.303)	9.305
Non Current Borrowing	(302.359)	(283.471)	18.888
PFI and Finance Lease Liabilities	(75.591)	(71.595)	3.996
	<b>(133.912)</b>	<b>(98.048)</b>	<b>35.864</b>

Reconciliation between the cash movement and the movement in net debt for 2018-19 and 2017-18:

2017-18 £m		2018-19 £m
<b>13.280</b>	<b>(Increase)/Decrease in Cash &amp; Cash Equivalents</b>	<b>(3.592)</b>
(663.634)	Investments repaid (and accrued interest)	(778.330)
654.029	New investments (and accrued interest)	797.680
0.000	Revaluation of investments	(1.756)
(126.612)	Loans Raised (and interest accrued)	(297.169)
154.805	Loans Repaid (includes accrued interest)	283.070
3.996	Payment of PFI and Lease Principal	2.876
0.000	Loans Modification Gains/(Losses)	29.224
<b>35.864</b>		<b>32.003</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 47. RECONCILIATION OF CASH FLOWS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

	31 Mar 2018 £m	Cash Flows £m	Non-Cash Changes £m	31 Mar 2019 £m
Current Borrowing	15.303	13.106	9.165	37.574
Non Current Borrowing	283.471	0.069	(37.465)	246.075
PFI and Finance Lease Liabilities	71.595	(2.536)	(0.340)	68.719
	<b>370.369</b>	<b>10.639</b>	<b>(28.640)</b>	<b>352.368</b>

Non-cash changes to the Council's liabilities includes a reduction of £29.224m in the carrying value of non-current borrowing because of gains on modified loans recognised on transition to IFRS 9 Financial Instruments in 2018-19 and an increase of £9.165m in the carrying value of current borrowing relating to a transfer from non-current borrowing amounts falling due within 12 months of the balance sheet date. Interest of £0.939m was accrued in the year which increased the carrying value of liabilities. The remaining non-cash transactions represent a reduction in carrying value of £0.335m because of a movement between these liabilities and short term creditors and debtors.

	31 Mar 2017 £m	Cash Flows £m	Non-Cash Changes £m	31 Mar 2018 £m
Current Borrowing	24.608	(13.018)	3.713	15.303
Non Current Borrowing	302.359	(11.760)	(7.128)	283.471
PFI and Finance Lease Liabilities	75.591	(3.340)	(0.656)	71.595
	<b>402.558</b>	<b>(28.118)</b>	<b>(4.071)</b>	<b>370.369</b>

### 48. LEASE TYPE ARRANGEMENTS

#### FINANCE LEASES – COUNCIL AS LESSEE

The Council has a number of property assets that were acquired under finance leases. All assets are carried as Property, Plant and Equipment on the Balance Sheet. Note 16 shows the net value of assets held under Finance Leases.

The Minimum Lease Payments (MLP) are made up of the following:

2017-18 £m				2018-19 £m		
Interest	Liability	MLP		Interest	Liability	MLP
0.577	0.268	0.845	Within 1 year	0.572	0.344	0.916
2.068	1.281	3.349	Within 2 to 5 years	2.009	1.586	3.595
4.505	3.500	8.005	More than 5 years	3.619	3.422	7.041
<b>6.573</b>	<b>4.781</b>	<b>11.354</b>	<b>Total Non-Current</b>	<b>5.628</b>	<b>5.008</b>	<b>10.636</b>
7.150	5.049	12.199		6.200	5.352	11.552

## NOTES TO THE CORE FINANCIAL STATEMENTS

The MLP does not contain rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. Contingent rents on these assets are insignificant.

### OPERATING LEASES – COUNCIL AS LESSEE

The Council has a number of property assets (within PPE) under operating leases for:

- Delivery of local education.
- Youth information and clubs.
- Community and environmental purposes.
- Miscellaneous use, including office accommodation.

The Council has no vehicles, plant or equipment under an operating lease as at 31 March 2019 (2017-18: one platform under an operating lease).

The MLP due under non-cancellable leases in future years in respect of these properties will be payable over the following periods:

2017-18 £m		2018-19 £m
PPE		PPE
0.327	Within 1 year	0.304
1.102	Within 2 to 5 years	1.082
2.314	More than 5 years	2.137
<b>3.743</b>		<b>3.523</b>

A small number of properties and one fire vehicle, leased under operating leases, are sub-let. The Council entered into the contract for the fire vehicle whilst the Derbyshire Fire and Rescue Service was under Council control. The rental expenditure that was charged to the Net Cost of Services in relation to these assets was:

2017-18 £m		2018-19 £m
0.018	Minimum Lease Payment	0.017
(0.016)	Less sublease income	(0.014)
<b>0.002</b>		<b>0.003</b>

### FINANCE LEASES – COUNCIL AS LESSOR

The Council has two properties that have been leased out upon receipt of a premium. With respect to these leases, there is no further lease income to be received and therefore there is no debtor held in the accounts. Details of the properties currently leased out are:

- Grassmoor Golf Centre to Grassmoor Golf Ltd on a 1,000 year lease, which commenced in 2002, for a one-off payment of £230,000.
- Unit C1 Holmewood Business Park to SBK Property Limited on a 99 year lease, which commenced in 2015.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council also leases out the first floor offices of Ripley Library to Derbyshire Healthcare NHS Foundation Trust for £14,000 each year. The rental income due to be received over the remaining life of this lease is as follows:

2017-18 £m				2018-19 £m		
Finance Lease Debtor	Unearned Finance Income	Minimum Lease Payments		Finance Lease Debtor	Unearned Finance Income	Minimum Lease Payments
0.000	0.000	0.000	Within 1 year	0.010	0.004	0.014
0.000	0.000	0.000	Within 2 to 5 years	0.043	0.013	0.056
0.000	0.000	0.000	More than 5 years	0.063	0.007	0.070
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.116</b>	<b>0.024</b>	<b>0.140</b>

The unguaranteed residual value of the asset relates to the estimated value of the property at the end of the lease (i.e. an estimated sale value). The gross investment in the lease and the minimum lease payments will be received over the following periods:

2017-18 £m				2018-19 £m		
Minimum Lease Payments	Unguaranteed Residual Value of Property	Gross Investment in the Lease		Minimum Lease Payments	Unguaranteed Residual Value of Property	Gross Investment in the Lease
0.000	0.000	0.000	Within 1 year	0.014	0.000	0.014
0.000	0.000	0.000	Within 2 to 5 years	0.056	0.000	0.056
0.000	0.000	0.000	More than 5 years	0.070	0.123	0.193
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.140</b>	<b>0.123</b>	<b>0.263</b>

The Council has no provisions for unrealised finance lease investments. The minimum lease payments do not contain rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### OPERATING LEASE – COUNCIL AS LESSOR

The Council leases out a number of property assets (PPE) under operating leases including leases for:

- Economic development to provide suitable affordable accommodation for local businesses
- Youth information and clubs
- Community and environmental purposes
- Siting electricity substations

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

2017-18 £m				2018-19 £m		
Vehicles	Land & Building	Total		Vehicles	Land & Building	Total
0.001	0.783	0.784	Within 1 year	0.000	0.842	0.842
0.000	2.047	2.047	Within 2 to 5 years	0.000	2.138	2.138
0.000	6.304	6.304	More than 5 years	0.000	6.129	6.129
<b>0.001</b>	<b>9.134</b>	<b>9.135</b>		<b>0.000</b>	<b>9.109</b>	<b>9.109</b>

The minimum lease payments do not contain rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### 49. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

There are three PFI schemes in which private sector providers build and maintain accommodation for use by the Council:

- Phase 1 – in 2001 the Council signed a contract for two secondary schools at Tupton and Chapel-en-le Frith. They were completed and occupied in April 2003 under a 26 year contract.
- Phase 2 – during 2004-05 the Council signed a contract for two further schools at Newbold and Long Eaton which became operational in February 2006 under a 26 year contract. Long Eaton School became an Academy on 1 April 2011. Newbold School became an Academy, known as Outwood Academy Newbold, on 1 January 2015.
- Phase 3 – Schools provided under the Building Schools for the Future (BSF) programme opened in November 2010 at Bolsover and Springwell (Staveley). These were designed and built as PFI schools and will be operated on a 25 year contract. Bolsover School became an Academy on 1 October 2012.

### Payments

The Council makes an agreed payment each year (the unitary charge) which is increased by inflation and can be reduced if the contractor fails to meet availability and performance standards.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

During 2017-18, the Council undertook a refinancing exercise of the BSF PFI debt, which reduced the interest charge on the long term debt. This resulted in a one-off financial benefit of approximately £2.100m for the Council. The term of the loan and service level elements of the agreement all remain the same.

The liability outstanding to pay the contractor for capital expenditure incurred is shown below.

	2017-18			2018-19		
	Ph 1	Ph 2	BSF	Ph 1	Ph 2	BSF
	£m	£m	£m	£m	£m	£m
<b>Unitary Charge Paid</b>						
Delivery of services	2.531	2.641	3.144	2.565	2.719	3.889
Interest Payment	1.364	1.532	1.752	1.289	1.468	0.815
Reduction to Liability	1.090	1.015	0.988	1.165	1.080	1.327
<b>Unitary Charge Paid</b>	<b>4.985</b>	<b>5.189</b>	<b>5.884</b>	<b>5.019</b>	<b>5.267</b>	<b>6.031</b>
<b>Loan Liability B Fwd</b>	(19.615)	(24.008)	(30.508)	(18.526)	(22.993)	(29.520)
Reduction to Liability	1.090	1.015	0.988	1.165	1.080	1.327
<b>Loan Liability C Fwd</b>	<b>(18.526)</b>	<b>(22.993)</b>	<b>(29.520)</b>	<b>(17.360)</b>	<b>(21.913)</b>	<b>(28.193)</b>
Liability in Creditors	(1.165)	(1.080)	(1.327)	(1.246)	(1.149)	(1.364)
Non Current Liabilities	(17.360)	(21.913)	(28.193)	(16.114)	(20.764)	(26.830)
<b>Loan Liability C Fwd</b>	<b>(18.526)</b>	<b>(22.993)</b>	<b>(29.520)</b>	<b>(17.360)</b>	<b>(21.913)</b>	<b>(28.193)</b>

Payments remaining to be made under the PFI contract at 31 March are as follows:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	2017-18			2018-19		
	Ph 1	Ph 2	BSF	Ph 1	Ph 2	BSF
	£m	£m	£m	£m	£m	£m
<b>Within one year:</b>						
Service charge	2.437	2.233	3.317	2.437	2.233	3.317
Interest element	1.289	1.468	0.815	1.208	1.399	0.778
Repayment of liability	1.165	1.080	1.327	1.246	1.149	1.364
<b>Within two to five years:</b>						
Service charge	9.747	8.930	13.266	9.747	8.930	13.266
Interest element	4.286	5.135	2.883	3.901	4.813	2.726
Repayment of liability	5.530	5.054	5.685	5.915	5.377	5.841
<b>Within six to ten years:</b>						
Service charge	12.183	11.163	16.583	12.183	11.163	16.583
Interest element	2.898	4.379	2.675	2.247	3.845	2.453
Repayment of liability	9.372	8.358	8.034	10.024	8.892	8.256
<b>Within eleven to fifteen years:</b>						
Service charge	2.635	8.666	16.583	0.198	6.433	16.583
Interest element	0.172	1.352	1.503	0.001	0.810	1.249
Repayment of liability	2.459	8.500	9.206	0.176	6.495	9.460
<b>Within sixteen to twenty years:</b>						
Service charge	0.000	0.000	8.591	0.000	0.000	5.274
Interest element	0.000	0.000	0.256	0.000	0.000	0.110
Repayment of liability	0.000	0.000	5.271	0.000	0.000	3.274

All of the PFI schools will be handed back to the Council (or the Governors of the School for Academies) when the relevant contract expires. In the case of the Phase 1 schools this will be on 28 April 2029, for the Phase 2 schools it will be 12 February 2032 and for the BSF schools on 31 October 2035.

Under the terms of the agreements, the Council is able to terminate the agreements at any time. If this were due to a contractor default the Council is entitled to re-tender the contract, otherwise the contractors would be entitled to compensation. The Council has step in rights, if action needs to be taken in connection with the services provided by any of the contractors because of a serious risk to the health or safety of persons or to discharge a statutory duty; and/or because an emergency has arisen.

### Property, Plant and Equipment

The schools are recognised on the Council's Balance Sheet, except those which are Academies. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 16.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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### 50. DEFINED CONTRIBUTION PENSION SCHEMES

#### Teachers' Pension Scheme

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

The Scheme is a defined benefit scheme which is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of 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 2018-19 the Council paid £38.797m to Teachers' Pensions (2017-18: £42.952m) in respect of teachers' retirement benefits. During 2018-19 the Employer's Contribution rate for the Teachers' Pension Scheme was 16.48% (2017-18: 16.48%).

#### NHS Pension Scheme

Former NHS employees working in the Surestart and Public Health fields that moved to the Council in 2008 and 2013, respectively, and some Public Health staff employed since then, are members of the NHS Pension Scheme, administered by the Department of Health. The Scheme provides these employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme which is unfunded and the Department for Health uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of 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, which is consistent with the NHS method of accounting.

In 2018-19 the Council paid £0.884m to the NHS Pension Scheme (2017-18: £0.434m) in respect of the retirement benefits of these Council employees. The Employer's Contribution rate during 2018-19 for the NHS Pension Scheme was 14.38% (2017-18: 14.38%). No further disclosures are required because of the immateriality of the information.

### 51. DEFINED BENEFIT SCHEME

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 that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The Local Government Pension Scheme (LGPS), administered by Derbyshire County Council – this is a funded defined benefit final salary scheme, meaning the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- 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 pensions payments as they eventually fall due.

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

The following transactions have been made during the year:

	Notes/ Statement	LGPS		Teachers	
		2017-18 £m	2018-19 £m	2017-18 £m	2018-19 £m
Current service cost		106.233	101.043	0.000	0.000
Net interest cost	7	17.197	17.559	1.723	1.697
Past service costs & curtailments	12	0.418	0.382	0.000	0.000
Settlements	12	(7.191)	(8.626)	0.000	0.000
<b>Benefits charged to the CIES</b>		<b>116.657</b>	<b>110.358</b>	<b>1.723</b>	<b>1.697</b>
Actuarial losses/(gains)	CIES	(69.017)	135.007	(0.614)	2.430
<b>Total Loss/(Gain)</b>		<b>47.640</b>	<b>245.365</b>	<b>1.109</b>	<b>4.127</b>
<b>Movements in Reserves Statement:</b>					
Reversal of charges made	15	(116.657)	(110.358)	(1.723)	(1.697)
Contributions - unfunded benefits	15	2.481	2.490	0.000	0.000
Employers' contributions payable	15	52.804	52.053	4.530	4.506

### Assets and Liabilities in Relation to Post-Employment Benefits

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Funded liabilities:		Unfunded liabilities:	
	2017-18	2018-19	2017-18	2018-19
	£m	£m	£m	£m
<b>Opening balance at 1 April</b>	<b>2,626.028</b>	<b>2,680.619</b>	<b>68.512</b>	<b>65.091</b>
Current service cost	106.233	101.043	0.000	0.000
Interest cost	68.617	72.410	1.723	1.697
Contributions by participants	16.129	17.587	0.000	0.000
Actuarial gains and losses	(51.686)	227.649	(0.614)	2.430
Benefits paid	(61.210)	(65.870)	0.000	0.000
Unfunded benefits paid	(2.481)	(2.490)	(4.530)	(4.506)
Effect of settlements	(21.429)	(31.072)	0.000	0.000
Past service costs	0.418	0.382	0.000	0.000
<b>Closing balance at 31 March</b>	<b>2,680.619</b>	<b>3,000.258</b>	<b>65.091</b>	<b>64.712</b>

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

Reconciliation of fair value of the scheme (plan) assets:

	Local Government	
	2017-18	2018-19
	£m	£m
<b>Opening balance at 1 April</b>	<b>(1,984.638)</b>	<b>(2,046.874)</b>
Expected rate of return	(51.420)	(54.851)
Actuarial gains	(17.331)	(92.642)
Employer contributions	(52.804)	(52.053)
Contributions by participants	(16.129)	(17.587)
Benefits paid	61.210	65.870
Effect of settlements	14.238	22.446
<b>Closing balance at 31 March</b>	<b>(2,046.874)</b>	<b>(2,175.691)</b>

### Scheme History

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total net liability of the LGPS of £824.567m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Present value of liabilities:		Present Value of assets:	(Surplus)/deficit in the Scheme:		Total
	LGPS	Discretionary Benefits	LGPS	LGPS	Discretionary Benefits	
	£m	£m	£m	£m	£m	£m
<b>2014-15</b>	2,247.975	73.775	(1,575.232)	672.743	73.775	<b>746.518</b>
<b>2015-16</b>	2,142.057	65.787	(1,579.686)	562.371	65.787	<b>628.158</b>
<b>2016-17</b>	2,626.028	68.512	(1,984.638)	641.390	68.512	<b>709.902</b>
<b>2017-18</b>	2,680.619	65.091	(2,046.874)	633.745	65.091	<b>698.836</b>
<b>2018-19</b>	3,000.258	64.712	(2,175.691)	824.567	64.712	<b>889.279</b>

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £52.911m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, with estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the Actuary have been:

	2017-18	2018-19
Mortality Assumptions:		
Longevity at 65 (current pensioners):		
-Men	21.9	21.9
-Women	24.4	24.4
Longevity at 65 (future pensioners):		
-Men	23.9	23.9
-Women	26.5	26.5
Inflation Rates:		
Increase in salaries (LGPS only)	2.9%	3.0%
Increase in pensions	2.4%	2.5%
Discounting scheme liabilities	2.7%	2.4%

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below, showing the impact of a change at 31 March 2019:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government	
	Approximate increase to employer liability %	Approximate monetary amount £m
0.5% decrease in real discount rate	10	312.761
0.5% increase in salary increase rate	1	43.452
0.5% increase in pension increase rate	9	263.975

The Actuary has noted that in order to quantify the impact of a change in the financial assumptions used, the value of the scheme liabilities at 31 March 2019 has been calculated and compared on varying bases. The approach taken is consistent with that adopted to derive the IAS19 figures provided by the Actuary for the accounts.

To quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

These figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

The return on the Fund in market value terms for the period to 31 March 2019 is estimated based on actual Fund returns as provided by the Administering Authority and index returns where necessary. The total return for the period from 1 April 2018 to 31 March 2019 is 7.2% (2017-18: 3.5%).

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2017-18	2018-19
	%	%
Equity investments	67.7	60.4
Debt instruments:		
Government bonds	9.5	9.6
Other bonds	9.4	12.0
Property	6.6	8.3
Cash and cash equivalents	4.8	7.0
Other assets	2.0	2.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pension Reserve can be analysed into the following categories, measured as a percentage of assets or liabilities at the balance sheet date:

	LGPS		Teachers
	Actuarial (gain) / loss on assets over total assets	Actuarial (gain) / loss on liabilities over total liabilities	Actuarial (gain) / loss on liabilities over total liabilities
<b>2014-15</b>	(6.83%)	12.26%	10.75%
<b>2015-16</b>	(3.10%)	(10.13%)	(8.62%)
<b>2016-17</b>	17.26%	14.49%	7.29%
<b>2017-18</b>	0.85%	(1.93%)	(0.94%)
<b>2018-19</b>	4.26%	7.59%	3.76%

### Forecast for next year

	Local Government		Teachers Pensions	
	£m	£m	£m	£m
Projected service cost				
Estimated pay:	257.762		0.000	
Service cost (% of pay)	44.9%		n/a	
Implied service cost next year:		114.985		0.000
Net interest cost		20.509		1.499
Administration expenses		0.773		0.000
<b>Total pension cost recognised</b>		<b>136.267</b>		<b>1.499</b>
Projected employer contributions				
Normal contributions	(52.911)		(4.506)	
<b>Total employer contributions next year</b>		<b>(52.911)</b>		<b>(4.506)</b>
Current deficit		824.567		64.712
<b>Projected deficit next year</b>		<b>907.923</b>		<b>61.705</b>

## 52. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The annual Treasury Management Strategy outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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Detailed information can be found in the annual Capital Programme Approvals, Treasury Management and Capital Strategy which is available on the Council's website:  
<https://www.derbyshire.gov.uk/council/meetings-decisions/meetings/cabinet/cabinet-24-january-2019.aspx>

### Credit risk

Credit risk is the potential for the Council to suffer loss due to another party defaulting on its financial obligations.

The Council defines default as a customer or borrower's failure to pay amounts owed to it. A counterparty is likely to be considered in default if:

- it is in administration, insolvency or winding up proceedings;
- it has entered into a scheme of arrangement with its creditors;
- it is in default on similar financial assets.

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. The financial institutions' credit ratings are monitored throughout the year and significant changes are reported to Cabinet. The Annual Investment Strategy also imposes a maximum sum to be invested and a maximum duration of each loan for counterparties.

It is the Council's policy to write-off any debt where all reasonable measures have been taken to recover the debt or after the Chief Financial Officer and the Director of Legal Services have established that the debt is irrecoverable due to bankruptcy or insolvency.

The Council's maximum exposure to credit risk in relation to its cash deposits, investments in banks and building societies and money market funds is £286.303m, all of which is deposited in the UK, except for £34.737m in global pooled funds. A risk of non-recovery applies to all of the Council's deposits, but there was no evidence at 31 March 2019 that this was likely to crystallise.

The Council's potential maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions is £25.361m. These financial assets include trade debtors (£26.077m), transferred debt (£0.987m), contract assets (£0.892m) and lease receivables (£0.116m). The Council recognised an allowance for credit losses which reduced the carrying amount of these financial assets by £2.711m. Customers for goods and services are vetted, taking into account their financial position, past experience and other factors. The Council does not generally allow credit for its trade debtors.

To determine whether there has been a significant increase in the credit risk of an investment, cash or cash equivalent the Council considers a range of factors including whether its credit rating has fallen below investment grade (BBB-), declining financial performance, a fall in the value of collateral or the quality of guarantees given and any adverse business or economic conditions impacting on the investment.



## NOTES TO THE CORE FINANCIAL STATEMENTS

The profile of these assets by credit rating (AAA is the strongest credit rating) is as follows:

	AAA or equivalent £m	AA or equivalent £m	A or equivalent £m	Rated Not Strong £m	Not Rated £m	Trade Debtors and Transferred Debt £m	Total £m
Cash and cash equivalents	0.000	10.030	31.162	0.000	0.467	0.000	41.659
Investments	0.000	128.572	40.267	0.000	75.825	0.000	244.664
Trade Debtors and Transferred Debt	0.000	0.000	0.000	0.000	0.000	25.361	25.361
	<b>0.000</b>	<b>138.602</b>	<b>71.429</b>	<b>0.000</b>	<b>76.292</b>	<b>25.361</b>	<b>311.684</b>

	AAA or equivalent £m	AA or equivalent £m	A or equivalent £m	Rated Not Strong £m	Not Rated £m	Trade Debtors and Transferred Debt £m	Total £m
<b>Loss Allowance is measured at 12-month expected credit losses because:</b>							
There has been no significant increase in credit risk since initial recognition	0.000	0.016	41.300	0.000	0.000	0.000	<b>41.316</b>
<b>Loss Allowance is measured at lifetime expected credit losses because:</b>							
Credit risk has increased significantly since initial recognition	0.000	0.000	0.000	0.000	7.914	0.000	<b>7.914</b>
Financial assets have become credit impaired	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Allowed under the simplified approach, i.e. Trade Debtors	0.000	0.000	0.000	0.000	0.000	22.467	<b>22.467</b>
<b>No Loss Allowance as relevant statutory provisions prevent default:</b>							
Counterparty is Central Government or another local authority	0.000	138.586	0.000	0.000	0.000	5.605	<b>144.191</b>
<b>No Loss Allowance, Other:</b>							
Financial assets measured at Fair Value	0.000	0.000	0.000	0.000	68.908	0.000	<b>68.908</b>
Cash balances	0.000	0.000	30.153	0.000	0.000	0.000	<b>30.153</b>
<b>Total Gross Carrying Amount</b>	<b>0.000</b>	<b>138.602</b>	<b>71.453</b>	<b>0.000</b>	<b>76.822</b>	<b>28.072</b>	<b>314.949</b>
Loss Allowances	0.000	0.000	(0.023)	0.000	(0.530)	(2.711)	<b>(3.264)</b>
<b>Total Net Carrying Amount</b>	<b>0.000</b>	<b>138.602</b>	<b>71.430</b>	<b>0.000</b>	<b>76.292</b>	<b>25.361</b>	<b>311.685</b>

The past due amount for trade debtors can be analysed by age as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	31 Mar 2018 £m	31 Mar 2019 £m
Less than three months	14.446	16.957
Three to six months	1.640	1.789
Six months to one year	2.173	1.406
More than one year	4.517	5.925
<b>Total</b>	<b>22.776</b>	<b>26.077</b>

The gross value of trade debtors excluding other local authorities is analysed as follows:

	<b>Gross Value of Trade Debtors 31 Mar 2019 £m</b>
Finance Lease Receivables	0.116
Contract Assets	0.892
0 - 30 Days	10.703
Over 30 Days	10.756
<b>Debtors Excluding Other Local Authorities</b>	<b>22.467</b>

A loss allowance for these financial assets is recognised based on the gross value of trade debtors which are more than 30 days past due and which have been or are expected to be referred for review by the Council's Legal Services department or under the Care Act (2014). A non-recovery rate based on the historical success rate of recovering such debt, once referred, is applied to the gross value of referred debt to determine the amount of the loss allowance.

	Trade Debtors Over 30 Days £m	Referred Debt* £m	Expected Non- Recovery Rate %	General Loss Allowance £m	Specific Loss Allowance £m	Total Loss Allowance £m
Adult Care - With Charges Over	2.811	0.000	0.00%	0.000	0.000	<b>0.000</b>
Adult Care Other - Over 1 Year	2.899	2.899	62.09%	1.800	0.000	<b>1.800</b>
Adult Care Other - 1 Year or Under	2.006	2.006	20.97%	0.421	0.000	<b>0.421</b>
Other	3.040	1.264	20.97%	0.265	0.225	<b>0.490</b>
<b>Total</b>	<b>10.756</b>	<b>6.169</b>		<b>2.486</b>	<b>0.225</b>	<b>2.711</b>

\* Referred debt has been, or is expected to be, referred to Legal Services or reviewed under the Care Act (2014)

### Reconciliation of Credit Loss Allowances

A reconciliation of the opening and closing balances of the allowances recognised for potential credit losses on the Council's financial assets for the year ended 31 March 2019 is provided as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Balance at start of year £m	Increase due to recognition of new Financial Assets £m	Decrease due to de-recognition of Financial Assets £m	Change due to Modification of cash flows of the Financial Assets £m	Due to Change in Average Default Rates £m	Due to Change in Significance of Credit Risk £m	Balance at end of year £m
<b>Measured at 12-month expected credit losses where:</b>							
There has been no significant increase in credit risk since initial recognition	0.051	0.016	(0.035)	0.000	(0.009)	0.000	0.023
<b>Measured at lifetime expected credit losses where:</b>							
Credit risk has increased significantly since initial recognition	0.066	0.386	0.000	0.000	0.077	0.000	0.529
Financial assets have become credit impaired	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Allowed under the simplified approach i.e. Debtors	2.147	0.510	0.000	0.000	0.054	0.000	2.711
<b>Total Loss Allowance</b>	<b>2.264</b>	<b>0.912</b>	<b>(0.035)</b>	<b>0.000</b>	<b>0.122</b>	<b>0.000</b>	<b>3.263</b>

### Liquidity risk

The Council manages a comprehensive cash flow management system. This seeks to ensure that cash is available when it is needed. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The contractual maturity for short term and long term borrowing is as follows:

	<b>31 Mar 2019 £m</b>
Less than one year	(35.650)
Between one and two years	(4.575)
Between two and five years	(13.599)
Between five and ten years	(32.620)
More than ten years	(195.120)
	<b>(281.564)</b>

### Interest rate risk

Within the Annual Treasury Management Strategy maximum limits are set for fixed and variable interest rate exposure. The interest rate profile of financial assets and liabilities is as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Total £m	Non- interest bearing £m	Variable or Fixed <1 year £m	Fixed > 1 year £m	Fixed rate	
					Weighted average int rate (%)	Weighted average period (years)
<b>Financial assets</b>	<b>256.170</b>	1.000	231.660	23.510	1.11	1
<b>Financial liabilities</b>	<b>(281.564)</b>	0.000	(26.500)	(255.064)	4.35	18

A 1% change in interest rates would have the following impact:

	Impact on provision of services £m	Impact on net worth £m
Increase by 1% (100 basis points)	0.824	44.694
Decrease by 1% (100 basis points)	(0.824)	(44.694)

### 53. SUBSEQUENT EVENTS

#### New Waste Treatment Facility

The Council and Derby City Council are engaged in a project to build a New Waste Treatment Facility (NWTF) in Sinfin, Derby, to deal with waste that residents in Derby and Derbyshire do not recycle. The facility, which was due to open in 2017, is being built on the councils' behalf by Resource Recovery Solutions (Derbyshire) Ltd (RRS), which is a partnership between national construction firm Interserve, which is also building the plant, and waste management company Renewi. However, RRS has not to date been able to resolve ongoing issues at the plant to allow it to pass the certified performance tests needed to bring it into full service.

On 10 April 2019 the councils issued a formal notice to the NWTF project's funders, to take action under the contract, to secure the future of the facility.

Funding for the facility is being loaned to RRS by the UK Green Infrastructure Platform and three international banks: Sumitomo Mitsui Banking Corporation and Shinsei Bank, from Japan and Bayerische Landesbank, from Germany.

In light of the significant uncertainty regarding the likely actions of all the parties involved with the project, the councils are planning on the basis of all scenarios.

# Statement of Accounts Derbyshire Pension Fund 2018-19

<b>Version History</b>			
<b>Vsn</b>	<b>Date</b>	<b>Detail</b>	<b>Author</b>
1.0	31.05.19	Pre-audit accounts for signature	E Scriven R Dosanjh
<b>This document has been prepared using the following ISO27001:2013 standard controls as reference:</b>			
<b>ISO Control</b>		<b>Description</b>	
A.8.2		Information classification	
A.7.2.2		Information security awareness, education and training	
A.18.1.1		Identification of applicable legislation and contractual requirements	
A.18.1.3		Protection of records	
A.18.1.4		Privacy and protection of personally identifiable information	

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## **PENSION FUND ACCOUNTS EXPLANATORY FOREWORD**

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Derbyshire County Council administers the Local Government Pension Scheme (LGPS) for employees, pensioners and dependents of a variety of bodies in Derbyshire, including: Councils; Police and Fire Authorities (for civilian employees); the University of Derby, Colleges and Academies (non-teaching staff); Charities and some private companies providing services to local councils.

Derbyshire Pension Fund (the Fund) has over 280 participating employers and over 100,000 members, either active contributors, pensioners or deferred pensioners (people who have stopped paying into the scheme but are not yet receiving a pension).

The benefits payable to members within the Fund are determined by regulations and are guaranteed. Assets in the Fund meet members' benefit payments when they fall due and are accumulated through a combination of contributions from employees and employers within the Fund and from investment returns (both income and capital). The Fund continues to be cashflow positive, with contributions and investment income exceeding benefit payments.

At the end of March 2019, the value of the Fund's assets was over £4.9bn. The investment return in the year to March 2019 was 5.6%, with a sharp sell-off in equity markets in the final quarter of 2018 followed by a very strong recovery in the first quarter of 2019.

LGPS Central Limited (LGPSC), the company established to manage investments on behalf of nine LGPS funds including Derbyshire Pension Fund, has been managing the Fund's UK Equity portfolio under a discretionary agreement since April 2018, in advance of the launch of a suitable collective vehicle. LGPSC has also been providing advice to the Fund in respect of the Japanese, Asia Pacific and Emerging Markets Equities portfolios since September 2018. An Emerging Markets Equity product is due to be launched by LGPSC in the first half of 2019-20; the Fund is currently undertaking due diligence on this product.

During the year, Altair, a new pension administration system, was implemented. Data conversion and mapping difficulties experienced by the supplier pushed the implementation date of Altair into the first quarter of 2019. A comprehensive project governance regime was maintained throughout the life of the project and the new system went live in March 2019. Altair is expected to contribute to an improved level of service to Fund members and employers. However, it is likely to take some time for the new system to have a meaningful impact on the outstanding administration backlogs that built up under the previous system.

A separate Annual Report is produced for the Fund which, in addition to the Fund's accounts, includes the governance arrangements for the Fund, detailed performance information and the Fund's approved policy statements. The Annual Report is available on the Derbyshire Pension Fund's website:

<https://derbyshirepensionfund.org.uk/about-the-fund/annual-report/annual-report.aspx>

## PENSION FUND ACCOUNTS EXPLANATORY FOREWORD

### Membership Statistics

	Actuals		
	31 Mar 2017	31 Mar 2018	31 Mar 2019
Contributors	40,640	41,010	41,157
Pensioners and Dependants	27,599	27,959	30,024
Deferred Pensioners	30,327	32,099	31,136

### Employers' Contributions

Employers pay pension contributions into the Fund. The contribution rates payable by the County, Unitary and District Councils expressed as a percentage of pensionable payroll and fixed cash amounts are:

Council	2018-19	2019-20
Derbyshire County	14.5% plus £15.382m	14.5% plus £15.536m
Derby City	13.5% plus £6.912m	13.5% plus £6.981m
Amber Valley Borough	14.0% plus £1.047m	14.0% plus £1.057m
District of Bolsover	13.9% plus £0.953m	13.9% plus £0.962m
Chesterfield Borough	14.2% plus £1.971m	14.2% plus £1.991m
Derbyshire Dales	13.6% plus £0.639m	13.6% plus £0.645m
Erewash Borough	13.1% plus £1.114m	13.1% plus £1.125m
High Peak Borough	12.4% plus £1.815m	12.4% plus £1.833m
North East Derbyshire	13.7% plus £1.512m	13.7% plus £1.527m
South Derbyshire	13.8% plus £0.671m	13.8% plus £0.678m

The percentage rates that were determined by the Actuary in the valuation of the Fund at 31 March 2016, for 2017-18 onwards, are intended to cover the cost of future service of active Fund members, with the past service deficit being addressed by an annual fixed cash amount.

### Members' Contributions

For 2018-19 the contribution rates payable by members into the Fund are determined by The Local Government Pension Scheme 2013 Regulations. The rates are between 5.5% and 12.5% of members' pay, including non-contractual overtime, depending on their pay banding.

# PENSION FUND ACCOUNTS

## EXPLANATORY FOREWORD

### Investment Policy

During 2018-19 responsibility for policy matters rested with a Pensions and Investments Committee which is comprised of eight County Councillors, two Derby City Councillors and two non-voting Trade Union representatives. The Pensions and Investments Committee received advice from the Director of Finance & ICT and from one independent external adviser.

Day-to-day management of the Fund is delegated to the Director of Finance & ICT and his in-house staff, operating within a policy framework laid down by the Committee.

Policy is determined by reference to The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which require that advice is taken at regular intervals and place an onus on administering authorities to determine the balance of their investments and take account of risk.

The Fund has a central (strategic) benchmark asset allocation which is designed to meet the performance requirements for the level of risk agreed by the Pensions and Investments Committee. The benchmark allocation was reviewed part way through 2018-19, with a re-balancing of the Fund's assets from Growth Assets (e.g. Equities and Private Equity) to Income Assets (e.g. Infrastructure, Multi Asset Credit and Property). The Pensions and Investments Committee has a degree of flexibility around the central benchmark allocation and decides the specific allocations (weights) for each asset class at its quarterly meetings. In the table below, the column showing the benchmark return is what would have been achieved via neutrally weighted index returns, whereas the actual Fund returns are a function of both active asset allocation and active stock selection decisions.

The table below shows the Fund's returns over 1, 3, 5 and 10 years to 31 March 2019, compared to those of its strategic benchmark, as well as the impact of inflation on Fund returns.

Periods to 31 Mar 2019	Return		Inflation		Fund Real Return	
	Derbyshire Fund	Benchmark	CPI	RPI	Versus CPI Inflation	Versus RPI Inflation
	% pa	% pa	%	%	%	%
1 Year	5.6	5.6	1.9	2.4	3.7	3.2
3 Years	10.1	9.5	2.3	2.9	7.8	7.2
5 Years	8.4	8.0	1.8	2.3	6.6	6.1
10 Years	10.5	10.4	2.5	3.0	8.0	7.5

On a year by year basis, returns tend to fluctuate significantly according to economic and market conditions. Long-term returns are a more appropriate guide to the performance of the Fund.



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## **PENSION FUND ACCOUNTS EXPLANATORY FOREWORD**

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The Fund performed in line with benchmark over the one year period, and out-performed over the three, five and ten year periods. It is important to note that the Fund delivered real returns over these periods, with returns ahead of inflation in each period.

The 2018-19 return of 5.6% compared with 3.8% in 2017-18. In the twelve months to March 2019, equity returns to Sterling investors ranged from -0.9% in Japan to 17.5% in the United States, with overseas equity returns being positively impacted, on translation, by a weaker pound relative to the US dollar. Whilst domestically focused UK equity returns were adversely affected by the uncertainty caused by the Brexit negotiations, UK large cap stocks which generate a significant proportion of their revenues in US dollars, benefited from the strength of the US dollar. Overseas equity returns in local currency ranged from -5.4% in Emerging Markets, to 9.1% in the United States. Emerging Markets were impacted by fears over a global trade war, concerns over the health of the Chinese economy and the strength of the US dollar. US stocks benefited from continued economic growth, robust earnings growth (in part reflecting the beneficial impact of tax cuts) and a more dovish tone from the US Federal Reserve towards the end of 2018-19, which suggested a reduced likelihood of a rise in US interest rates in 2019. Notwithstanding the positive returns generated by global equities in 2018-19, equity markets were volatile, as evidenced by a sharp sell-off in the fourth quarter of 2018 (global equities fell by -10.5% in Sterling terms), followed by a strong recovery in the first quarter of 2019 (global equities rose by 12.2% in Sterling terms).

Bond returns were also positive in 2018-19, with UK Gilts returning 3.7%, UK Index-Linked Bonds returning 5.5% and Corporate Bonds returning 4.0%, reflecting investor caution, Brexit uncertainty and receding expectations of near term interest rate rises. Property (55% direct/45% indirect) returned 4.3% in 2018-19, reflecting a combination of continued capital growth and rental income.

### **Actuarial Position of the Fund**

Every three years an actuarial valuation of the Fund is undertaken in accordance with the provisions of The Local Government Pension Scheme Regulations 2013. The purpose of the valuation is to determine the solvency of the Fund and to set the level of contributions payable by each participating employer for the following three years. A valuation of the Fund was undertaken as at 31 March 2016 to set the level of employer contributions for the three years commencing 1 April 2017.

At 31 March 2016 the Net Assets of the Fund were £3.672bn and the Past Service Liabilities were £4.236bn. The Fund's deficit of £0.564bn is being recovered in accordance with its Funding Strategy Statement, which is available on the Council's website at <https://www.derbyshirepensionfund.org.uk/about-the-fund/policies-strategies-and-statements/investment-strategy.aspx>

The funding level is the Fund's ratio of assets to liabilities at the valuation date. The funding level at the 2016 valuation was 86.7%, an improvement on the funding level at the 2013 valuation of 82.5%.

## PENSION FUND ACCOUNTS EXPLANATORY FOREWORD

A number of factors, both positive and negative, impacted on the funding level. The overall funding level improved because the market value of the Fund's assets increased by more than the increase in the cash value of the Fund's past service liabilities. Actual investment returns were approximately 4% greater than the expected three-year return assumed in the 2013 actuarial valuation, improving the funding level. The overall impact of demographic experience also improved the funding level but this was off-set by changes in financial assumptions which have worsened it, including a decrease in the real discount rate between 2013 and 2016.

The valuation was undertaken using a market value approach. The assets were valued at their market value with market related discount rates used as the basis for determining the present value of the liabilities. Assumptions used are detailed in the following table.

	<b>Assumption %</b>
Asset Out-Performance*	1.80
Discount Rate (Pre Retirement)	4.00
Discount Rate (Post Retirement)	4.00
CPI Price Inflation	2.10
Real Earnings Inflation (Over CPI Inflation)	0.60
Salary Increases**	2.70
Pension Increases (except pre 88 GMP***)	2.10
Revaluation of deferred pension	2.10

\* Asset Out-Performance assumptions represent the expected out-performance of investment returns relative to gilts.

\*\* An allowance is also made for promotional pay increases.

\*\*\* The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. Different rules applied to GMP annual inflation-linked increases in two distinct periods; 1978 to 1988 and 1988 to 1997. This means that GMP can rise at different rates depending on when a pension entitlement is built up. For service before 1988 there is no duty on a scheme to provide inflation-linked increases, whilst for service between 1988 and 1997 a scheme has to provide inflation-linked increases up to a cap of 3 per cent.

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## **PENSION FUND ACCOUNTS EXPLANATORY FOREWORD**

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The contribution rates required have been determined using a “risk based” approach. The level of contribution rate to give an appropriate likelihood of meeting an employer’s funding target (usually a 100% funding level), within the agreed timeframe, is determined for each employer. The full rate of an employer’s contribution provides for the cost of year-by-year accrual of benefits in respect of current Fund members and the amount required to meet a shortfall in respect of the assets required for pensions in payment (including those payable to survivors of former members) and benefits accrued by other members, which will become payable in the future (known as a past service deficiency).

### **Further Information**

Derbyshire Pension Fund’s Investment Strategy Statement, Funding Strategy Statement, Actuarial Valuation Report, Governance Compliance Statement, Communications Policy Statement and Annual Report are available on the Derbyshire Pension Fund's website at <http://www.derbyshirepensionfund.org.uk> .

**PENSION FUND ACCOUNTS**  
**FUND ACCOUNT**

**FUND ACCOUNT**

2017-18 £m		Note	2018-19 £m
	<b>Dealings with Members, Employers and Others Directly Involved in the Fund</b>		
164.420	Contributions	7,24	193.715
12.724	Transfers in from Other Pension Funds	8	10.324
<b>177.144</b>			<b>204.039</b>
(155.380)	Benefits	9,24	(160.930)
(17.210)	Payments to and on Account of Leavers	10	(12.976)
<b>(172.590)</b>			<b>(173.906)</b>
<b>4.554</b>	<b>Net Additions from Dealings with Members, Employers and Others Directly Involved in the Fund</b>		<b>30.133</b>
(24.947)	Management Expenses	11	(28.129)
<b>(20.393)</b>	<b>Net (Withdrawals)/Additions Including Fund Management Expenses</b>		<b>2.004</b>
	<b>Returns on Investments</b>		
94.882	Investment Income	12	100.816
0.048	Taxes on Income	13	0.033
96.925	Profits and Losses on Disposal of Investments and Changes in Value of Investments	14	181.703
<b>191.855</b>	<b>Return on Investments</b>		<b>282.552</b>
<b>171.462</b>	<b>Net Increase in the Net Assets Available for Benefits During the Year</b>		<b>284.556</b>
4,472.569	Opening Net Assets of the Fund		4,644.031
<b>4,644.031</b>	<b>Closing Net Assets of the Fund</b>		<b>4,928.587</b>

**PENSION FUND ACCOUNTS**  
**NET ASSETS STATEMENT**

**NET ASSETS STATEMENT**

<b>31 Mar 2018</b>			<b>31 Mar 2019</b>
£m		Note	£m
4,626.179	Investment Assets	14-16	4,905.599
(6.803)	Investment Liabilities	14-16	(4.874)
30.195	Current Assets	18	32.336
(5.540)	Current Liabilities	19	(4.474)
<b>4,644.031</b>	<b>Net Assets of the Scheme Available to Fund Benefits at the Period End</b>		<b>4,928.587</b>

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Pensions and Investments Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed in Note 23 of these accounts.

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## **PENSION FUND ACCOUNTS**

### **NOTES TO THE PENSION FUND ACCOUNTS**

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Derbyshire Pension Fund (“the Fund”) is administered by Derbyshire County Council and is governed by Local Government Pension Scheme Regulations and associated pension legislation. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a funded defined benefit scheme, administered locally by the Council on behalf of its own employees (except teachers, former NHS employees and new employees working in Public Health, for whom separate pension arrangements apply), Unitary and District Council employees within Derbyshire and employees of other bodies who are specifically authorised by the Regulations. On 1 April 2014, the Fund, which had previously been a final salary scheme, became a Career Average Revalued Earnings (CARE) scheme.

#### **1. Basis of preparation**

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (“the Code”), which is based upon International Financial Reporting Standards (IFRS), which require the Fund’s accounts to comply with IAS 26 Accounting and Reporting by Retirement Benefit Plans, subject to the interpretations and adaptations for the Public Sector detailed in the Code and the Statement of Recommended Practice 2015 (“SORP”): Financial Reports of Pension Schemes insofar as it is relevant.

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Pensions and Investments Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed in Note 23 of these accounts.

The amount of separately invested Additional Voluntary Contributions (“AVCs”) paid by members during the year and their value at the net assets statement date are not included in the Pension Fund financial statements in accordance with Regulation 4 (1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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## **PENSION FUND ACCOUNTS**

### **NOTES TO THE PENSION FUND ACCOUNTS**

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## **2. Accounting policies**

### **Contributions**

Employee contributions are accounted for when deducted from members' pay. Employer normal contributions are accounted for in the period to which the corresponding pay relates. Other employer contributions, such as deficit funding contributions, are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

### **Benefits**

Benefits and payments to leavers are accounted for in the period they fall due for payment. Where a member has a choice about the form of their benefit, the benefit is accounted for and the liability is recognised when the member notifies the Council of their decision as to what form of benefit they will take. Where a member has no choice about the form of benefit, the benefit is accounted for in the period of leaving/retirement/death, being the period in which the liability to pay the benefit arises.

### **Transfers**

Where past service liabilities do not transfer between schemes until assets/liabilities have been transferred, transfers are accounted for on a cash basis. Where trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer is accounted for in accordance with the terms of the agreement.

### **Management expenses**

Management expenses are accounted for on an accruals basis. They are analysed in accordance with CIPFA Guidance "Accounting for Local Government Pension Scheme Management Costs (2016)".

### **Investment income**

Dividends from quoted securities are accounted for when the securities are quoted ex-dividend. Rent is accounted for in accordance with the terms of the lease. Interest on cash and bonds is accrued on a daily basis. Income arising on the underlying investments of accumulation funds is accounted for within change in market value of investments.

### **Taxes on income**

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 taxation is accounted for as a fund expense as it arises.

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## **PENSION FUND ACCOUNTS**

### **NOTES TO THE PENSION FUND ACCOUNTS**

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#### **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies are accounted for at the market exchange rate at the date of transaction. End of year market exchange rates are used to value overseas assets at the end of the accounting period. Exchange gains and losses relating to the translation of investments are accounted for as part of change in market value included in the Fund Account and those relating to current assets and liabilities are accounted for within the Fund Account under an appropriate heading.

#### **Cash and cash equivalents**

Cash comprises cash in hand and on-demand deposits. 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.

### **3. Basis of valuation**

Financial assets and liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset or liability. From this date any gains or losses arising from changes in the fair value of the asset or liability are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (Note 16).

### **4. Accounting Standards issued and not yet applied**

At the balance sheet date the following interpretations, new standards and amendments to existing standards have been published but not yet adopted by the Code:

- Amendments to IAS 40 Investment Property – Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This is not expected to impact on the Fund's accounts.
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle makes amendments to IFRS 1 (First-time Adoption of International Reporting Standards, deleting expired short-term exemptions), IFRS 12 (Disclosure of Interests in Other Entities, covering subsidiaries, joint arrangements and associates) and IAS 28 (Investments in Associates and Joint Ventures) and the improvements would have had no impact on the Fund's 2018-19 accounts.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Fund does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty Over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the Fund's accounts.



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## **PENSION FUND ACCOUNTS**

### **NOTES TO THE PENSION FUND ACCOUNTS**

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- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Fund has no loans to which this will apply.
- IFRS 16 Leases will require organisations, in their capacity as a lessee, to recognise leases on their balance sheet as right-of-use assets, with corresponding lease liabilities, with the exception of leases with a term of 12 months or less or where the underlying asset is of low value. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2019. This will have no impact on the Fund's accounts.

#### **5. Critical judgements made in applying the accounting policies**

In applying the accounting policies in Note 2, it has not been necessary to make any critical judgements about complex transactions or in respect of uncertain future events.

#### **6. Assumptions made and other estimation uncertainty**

##### **Actuarial present value of promised retirement benefits**

These accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year, however, the actuarial present value of promised retirement benefits is disclosed in these accounts. Estimation of the net liability to pay pensions depends on several 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 Fund investments. The Fund has engaged Hymans Robertson LLP as its Actuary to provide expert advice about the assumptions to be applied. The effect of changes in these estimates on the Fund's actuarial present value of promised retirement benefits is disclosed in the Report of the Actuary, in Note 23.

##### **Impact of McCloud judgement**

The McCloud judgement relates to a legal challenge by members of the New Judicial Pension Scheme against the age-based transitional provisions put into place when new pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. A Tribunal ruled against the Government, deeming that the transitional provisions were not a proportionate means of achieving a legitimate aim. Given the uncertainty around this judgement, with the Government awaiting news of its right to an appeal, it is too early to know what the likely impact of the McCloud judgement may be on members' benefits. The Actuary has therefore not made any allowance for potential outcomes of this judgement in its disclosure of the actuarial present value of promised retirement benefits, in Note 23, the Report of the Actuary.

##### **Impact of GMP equalisation**

The State Pension for people who reached State Pension age before 6 April 2016 had two tiers - the basic State Pension (which was flat-rate and dependent on an individual's NI record) and the additional State Pension – which was partly earnings-related.

## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

It was possible to contract out of the additional State Pension into an occupational pension scheme that met set criteria. Where an employee was contracted-out, they and their employer paid a reduced rate of National Insurance, to reflect the fact that they were forfeiting additional State Pension rights for that period. Between 1978 and 1997, contracted-out schemes were required to provide a Guaranteed Minimum Pension (GMP). Since 1997, a different test has applied but contracted-out schemes still have to provide a GMP for rights accrued between 1978 and 1997.

On 1 November 2018, the High Court ruled that the Lloyds Banking Group must amend its defined benefit pension schemes in order to equalise Guaranteed Minimum Pensions (GMPs) for men and women. Any GMP equalisation would be included as a 'past service cost' in the Comprehensive Income and Expenditure Statement of an employer. However, this should only follow a 'trigger event' in respect of a particular pension scheme. The Actuary's view is that a 'trigger event' has yet to occur in respect of the Local Government Pension Scheme (LGPS) and the Actuary has therefore not made any allowance for GMP equalisation impact in its disclosure of the actuarial present value of promised retirement benefits, in Note 23, the Report of the Actuary.

#### **Britain leaving the European Union**

There remains a high level of uncertainty around the implementation of the 2016 Brexit referendum result. Brexit developments have caused volatility in asset prices and hence also in bond yields. At the year end, bond yields, on which the discount rate and RPI rate used to value the liabilities for the balance sheet are based, fell on the third rejection of the Government's Withdrawal Agreement. It is not possible to predict future Brexit developments with any degree of certainty but they are likely to cause further volatility in asset prices and bond yields, and therefore impact future actuarial assumptions. However, pronouncements from the US Federal Reserve on the future direction of US interest rates and developments in global politics have the potential to cause similar levels of volatility in asset prices and bond yields and to materially impact future actuarial assumptions.

#### **7. Contributions**

	2017-18	2018-19
	£m	£m
<b>Employers</b>		
Normal	90.665	96.261
Deficit Funding	35.700	57.276
<b>Members</b>		
Normal	38.055	40.178
	<b>164.420</b>	<b>193.715</b>

Employers' contributions rates payable in 2017-18 and 2018-19 were set as part of the 2016 valuation which revealed an overall funding level of 86.7%.

**PENSION FUND ACCOUNTS**  
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On 12 June 2018 Derby City Council paid employer contributions of £39.716m to the Fund, covering the period May 2018 to March 2020. During 2018-19, normal employer contributions due from Derby City Council amounted to £14.429m. The balance of Derby City's employer contributions received during 2018-19 has been included in these accounts as deficit funding employer contributions.

**8. Transfers in from other pension funds**

	2017-18	2018-19
	£m	£m
Individual transfers in from other pension funds	12.724	10.324

**9. Benefits**

	2017-18	2018-19
	£m	£m
Pensions	119.980	127.949
Commutation of pensions and lump sum retirement benefits	30.806	29.033
Lump sum death benefits	4.594	3.948
	<b>155.380</b>	<b>160.930</b>

**10. Payments to and on account of leavers**

	2017-18	2018-19
	£m	£m
Refund of contributions to members leaving the Fund	0.543	0.650
Group transfers out to other pension funds	1.008	0.048
Individual transfers out to other pension funds	15.659	12.278
	<b>17.210</b>	<b>12.976</b>

Group transfers out in 2018-19 relates to the transfer of members from Derby City Council to the Department of Education. Of the group transfers in 2017-18, £1.006m related to the transfer of members who were past and present employees of Derby College to Manchester College, which is part of the Greater Manchester Pension Fund (GMPF).

Individual transfers out to other pension funds have decreased in 2018-19; transfers out in 2017-18 were higher than is typical.

**PENSION FUND ACCOUNTS**  
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**11. Management expenses**

Management expenses are analysed in accordance with CIPFA Guidance “Accounting for Local Government Pension Scheme Management Costs (2016)”.

	<b>2017-18</b>	<b>2018-19</b>
	<b>£m</b>	<b>£m</b>
Investment management expenses	22.602	24.829
Administrative costs	2.056	2.085
Oversight and governance costs	0.289	1.215
	<b>24.947</b>	<b>28.129</b>

Oversight and governance costs increased by £0.926m in 2018-19, reflecting LGPSC governance, operator and product development costs. No services were provided by LGPSC in 2017-18. Oversight and governance costs includes audit fees of £0.022m (2017-18: £0.029m).

Administration costs increased by £0.029m in 2018-19. Pension administration costs per member were £20.38 in 2018-19 (2017-18: £20.34).

Investment management expenses are analysed below:

	<b>2017-18</b>	<b>2018-19</b>
	<b>£m</b>	<b>£m</b>
Fund value based management fees	20.393	23.653
In house management fees	0.757	0.338
Transaction costs	1.409	0.798
Custody fees	0.043	0.040
	<b>22.602</b>	<b>24.829</b>

Fund value based management fees increased by £3.260m, to £23.653m in 2018-19, reflecting an increase in the value of underlying investments and an ongoing shift in the Fund’s asset mix to above average cost alternative investments. This followed revisions to the Fund’s approved Strategic Asset Allocation Benchmark in July 2015, March 2017 and January 2019, which increased the proportion of the Fund’s investments assets to be allocated to private equity, infrastructure, multi-asset credit and indirect property investments, from 5% to 22%. Fund value based management fees expressed as a proportion of investment assets increased from 0.44% in 2017-18 to 0.48% in 2018-19.

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**PENSION FUND ACCOUNTS**  
**NOTES TO THE PENSION FUND ACCOUNTS**

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Transaction costs relate to the following asset classes:

	<b>2017-18</b>	<b>2018-19</b>
	<b>£m</b>	<b>£m</b>
Equities	1.389	0.797
Bonds	0.020	0.001
	<b>1.409</b>	<b>0.798</b>

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment financial asset or liability. An incremental cost is one that would not have been incurred if the scheme had not acquired or disposed of the financial instrument. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Commissions decreased by £0.554m in 2018-19. This reduction in commissions largely reflects the impact of the introduction of a revision of the “Markets in Financial Instruments Directive”, in January 2018, known as MiFID II. MiFID II required investment brokers to unbundle research costs from their commissions and charge for research as a standalone item and has resulted in a sizeable reduction in the commissions paid by the Fund. However, the Fund now has to pay a separate research cost budget (2018-19, c£0.300m), which is now included in fund value based management fees.

Directly held investment properties are not financial assets and transaction costs in respect of them are capitalised into their initial cost, rather than expensed.

Direct transaction costs do not include debt premiums or discounts, financing costs or internal administration or handling costs.

Costs are incurred indirectly by the Fund on sales and purchases of pooled investment vehicles through the difference between the highest price a buyer of a security or other asset is willing to pay and the lowest price a seller is willing to offer (bid-offer spread).

Such costs are not separately identifiable but are reflected in the cost of these investment purchases and in the proceeds from their sale (Note 14).

**PENSION FUND ACCOUNTS**  
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**12. Investment income**

	<b>2017-18</b>	<b>2018-19</b>
	<b>£m</b>	<b>£m</b>
Income from equities	68.289	65.274
Income from bonds	9.432	9.623
Net rents from properties	9.299	10.087
Income from pooled investment vehicles	6.981	13.491
Interest on cash deposits	0.881	2.341
	<b>94.882</b>	<b>100.816</b>

Rents from properties are net of £0.528m of property expense (2017-18, net of £0.576m of property expense). The income or expense each year is the net of property management expenses recovered by service charges to tenants and irrecoverable property management expenses, for instance, rates on vacant properties.

**13. Taxes on income**

	<b>2017-18</b>	<b>2018-19</b>
	<b>£m</b>	<b>£m</b>
Taxation receivable	<b>(0.048)</b>	<b>(0.033)</b>

From 6 April 2016 there are no notional tax charges for UK dividends. The tax credits in 2017-18 and 2018-19 relate to reclaimed withholding taxes in respect of overseas investment income, which are recoverable by the Fund.

**PENSION FUND ACCOUNTS**  
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**14. Investment assets and liabilities**

	Value at 31 Mar 2018	Purchases & hedging payments	Sales & hedging receipts	Profits & losses on disposal of investments & changes in value of investments	Value at 31 Mar 2019
	£m	£m	£m	£m	£m
<b>Investment assets</b>					
Equities	1,991.038	487.563	(794.855)	110.904	1,794.650
Bonds	517.172	159.226	(144.726)	21.700	553.372
Pooled investment vehicles	1,656.922	316.257	(81.695)	51.394	1,942.878
Properties	199.175	25.450	-	4.725	229.350
	<b>4,364.307</b>	<b>988.496</b>	<b>(1,021.276)</b>	<b>188.723</b>	<b>4,520.250</b>
Cash deposits & short term loans	247.698			-	371.103
Other investment balances	14.174			-	14.246
	<b>4,626.179</b>			<b>188.723</b>	<b>4,905.599</b>
<b>Investment liabilities</b>					
Currency hedging contracts	(0.500)	335.509	(329.523)	(7.020)	(1.534)
Other investment balances	(6.303)			-	(3.340)
	<b>(6.803)</b>			<b>(7.020)</b>	<b>(4.874)</b>
	<b>4,619.376</b>			<b>181.703</b>	<b>4,900.725</b>

The total of profits and losses on disposal of investments and changes in value of investment assets and investment liabilities has increased the Fund's value by £181.703m during 2018-19 (2017-18, £96.925m increase). This total includes all increases and decreases in the market value of investments held at any time during the year and profits and losses realised on sales of investments during the year.

At 31 March 2019 the value of the Fund's investment in the UBS Life Europe Ex-UK Equity Tracker Fund was £489.312m, representing 9.9% (2018, £476.430m, 10.3%) of the total value of the Fund's net assets available for benefits.

Currency hedging receipts and payments represent the transactions settled during the year on currency hedging contracts relating to sovereign fixed income holdings. The Fund's objective is to decrease risk in the portfolio by entering into forward contracts to match a proportion of assets that are already held in the portfolio without disturbing the underlying assets.

**PENSION FUND ACCOUNTS**  
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At the year end, there was one currency hedging contract, with less than six months to expiry, with a gross contract value of £93.094m (2018, one contract, with less than six months to expiry, with a gross contract value of £68.116m).

Investment assets are further analysed below:

	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>
	<b>£m</b>	<b>£m</b>
<b>Equities</b>		
UK quoted	1,210.882	1,014.080
UK unquoted	1.315	1.315
Overseas quoted	778.841	779.255
	<b>1,991.038</b>	<b>1,794.650</b>
<b>Bonds</b>		
UK quoted	446.894	455.958
UK unquoted	0.685	0.685
Overseas quoted	69.593	96.729
	<b>517.172</b>	<b>553.372</b>
<b>Pooled Investment Vehicles</b>		
Property – unquoted	119.941	139.751
Property - quoted	22.149	22.502
Other quoted	1,002.306	1,078.094
Other unquoted	512.526	702.531
	<b>1,656.922</b>	<b>1,942.878</b>
<b>Properties</b>		
UK freehold	145.850	177.750
UK leasehold	53.325	51.600
	<b>199.175</b>	<b>229.350</b>
<b>Cash deposits and short term loans</b>		
Sterling cash deposits	27.544	34.215
Other Sterling short term loans	211.000	330.700
Foreign currency	9.154	6.188
	<b>247.698</b>	<b>371.103</b>

The proportion of the market value of net investment assets managed in-house and by each external manager at the year end is set out below.



**PENSION FUND ACCOUNTS**  
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	31 Mar 2018		31 Mar 2019	
	£m	%	£m	%
In-house	3,418.573	74.0	2,742.741	56.0
Colliers Capital Holdings Ltd	200.888	4.4	230.869	4.7
LGPS Central Ltd	-	-	885.126	18.1
UBS Global Asset Management Life Ltd	476.430	10.3	489.312	10.0
Wellington Management International Ltd	523.485	11.3	552.677	11.2
	<b>4,619.376</b>	<b>100.0</b>	<b>4,900.725</b>	<b>100.0</b>

LGPSC launched its first products on 1 April 2018 and since 3 April 2018 has managed the Fund's UK Equity portfolio on a discretionary basis. For more information refer to Note 20.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom except for:

<b>Fund</b>	<b>Country of registration of fund manager</b>
Aberdeen Global Japan Smaller Companies Fund	Luxembourg
AMP Capital Infrastructure Debt Fund III	Luxembourg
Barings Global Private Loan Fund I	Luxembourg
Barings Global Private Loan Fund II	Luxembourg
Barings Global Private Loan Fund III	Luxembourg
Fidelity Eurozone Select Real Estate Fund	Luxembourg
Invesco Real Estate Europe Fund	Luxembourg
J P Morgan Funds Latin American Equity Fund	Luxembourg
M&G European Property Fund	Luxembourg
Polunin Emerging Markets Developing Countries Fund	Luxembourg
SL Capital Infrastructure Fund II	Luxembourg
Baring Australia Fund	Republic of Ireland
CQS Credit Multi Asset Fund	Republic of Ireland
FPP Global Emerging Markets Fund	Republic of Ireland
JO Hambro Capital Management Japan Fund	Republic of Ireland
Legg Mason Martin Currie Greater China Fund	Republic of Ireland
Montanaro UK Smaller Companies Fund	Republic of Ireland
Adam Street 2017 Global Fund Program	Cayman Islands
3i Infrastructure Plc	Channel Islands
Baird Capital Partners Europe Fund	Channel Islands
Epiris II LP Fund	Channel Islands
Foresight Solar	Channel Islands
HICL Infrastructure Company Limited	Channel Islands
International Public Partnerships Limited	Channel Islands
Macquarie European Infrastructure Fund 5 (MEIF 5)	Channel Islands
Macquarie European Infrastructure 5 Co Investment Fund	Channel Islands
Macquarie European Infrastructure Fund 6 (MEIF 6)	Channel Islands
Macquarie European Infrastructure 6 Co Investment Fund	Channel Islands

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Partners Group – Global Value 2008 Fund  
 Princess Private Equity Holding Limited  
 The Renewables Infrastructure Group Limited

Channel Islands  
 Channel Islands  
 Channel Islands

#### 15. Fund investments by geographical sector (at market value)

	31 Mar 2018		31 Mar 2019	
	£m	%	£m	%
UK	2,618.553	56.7	2,600.120	53.1
N America	625.613	13.5	775.745	15.8
Europe	594.509	12.9	703.542	14.4
Asia and other	780.701	16.9	821.318	16.7
	<b>4,619.376</b>	<b>100.0</b>	<b>4,900.725</b>	<b>100.0</b>

UK investments fell in both absolute terms and as a percentage of total investment assets between 31 March 2018 and 31 March 2019 as on-going changes to the asset allocation reduced the Pension Fund's exposure to UK investment assets. As the proportion of UK investment assets fell, allocations to North American and European investment assets increased, driven by higher levels of Private Equity, Infrastructure, Multi-Asset Credit and Indirect Property fund draw-downs. The North American geographical allocation also benefited from stronger relative returns. The geographical allocation to Asia and other remained relatively flat year-on-year.

#### 16. Fair value – Basis of valuation

The basis of valuation of each class of financial investment asset and liability is set out below. There has been no change in the valuation techniques used during the year. All investment assets and liabilities have been valued using fair value techniques as follows:

- Market quoted investments, where there is a readily available market price, are valued at the bid market price on the final day of the accounting period.
- Quoted bonds are valued at net market value excluding accrued income.
- Pooled investment vehicles are included at closing bid price for funds with bid/offer spreads, or if single priced, at the closing price. For unquoted pooled investment vehicles this is at the price advised by the fund manager.
- Unquoted investments are valued at fair value, at the price or net asset value advised by the fund manager, or for private equity investments, based on the Fund's share of net assets at the year end, using the latest financial information available from the respective fund managers, adjusted for drawdowns and distributions to the final day of the accounting period, if the latest financial information is not produced to that date.
- Property is included at market value on the final day of the accounting period, determined in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards. The property portfolio was independently valued by Savills, Property Advisers.

## PENSION FUND ACCOUNTS

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- Fair value for investment property is calculated using the investment method of valuation, the premise of which is that all current and future income streams are capitalised at a rate or rates compared against yields achieved in market investment transactions and adjusted for individual characteristics of the subject property, based on valuer's opinions, wholly derived from observable prices achieved in market transactions.
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract on that date.

Financial investment assets and liabilities valued using fair value techniques have been classified into the three levels of what is known as a fair value hierarchy. The hierarchy is ordered according to the quality and reliability of information used to determine recurring fair values, with Level 1 being of the highest quality and reliability.

- Level 1 – Assets and liabilities assigned to Level 1 in the fair value hierarchy are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. The Fund's investments classified as Level 1 are quoted UK and Overseas Equities and quoted UK and Overseas Bonds issued by governments.
- Level 2 – Assets and liabilities assigned to Level 2 in the fair value hierarchy are those where quoted market prices are not available, for instance in a market that is not considered to be active, or where observable valuation techniques are used to determine fair value. The Fund's investments classified as Level 2 are quoted Pooled Investment Vehicles, Currency Hedging Contracts and unquoted LGPSC Bonds and Equities.
- Level 3 – Assets and liabilities assigned to Level 3 in the fair value hierarchy are those where at least one input which could have a significant effect on an instrument's valuation is not based on observable market data. The Fund's investments classified as Level 3 are unquoted Pooled Investment Vehicles and Properties.

The Fund's fair value hierarchy of investment financial assets, loans and receivables and financial liabilities is as follows:

	31 Mar 2018	31 Mar 2019
	£m	£m
<b>Financial Assets</b>		
<b>Level 1</b>		
UK quoted equities	1,210.882	1,014.080
Overseas quoted equities	778.841	779.255
UK quoted bonds	446.894	455.958
Overseas quoted bonds	69.593	96.729
	<b>2,506.210</b>	<b>2,346.022</b>

**PENSION FUND ACCOUNTS**  
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	31 Mar 2018	31 Mar 2019
	£m	£m
<b>Level 2</b>		
Property - quoted pooled investment vehicles	22.149	22.502
Other quoted pooled investment vehicles	1,002.306	1,078.094
UK unquoted equities	1.315	1.315
UK unquoted bonds	0.685	0.685
	<b>1,026.455</b>	<b>1,102.596</b>
<b>Level 3</b>		
Property – unquoted pooled investment vehicles	119.941	139.751
Other unquoted pooled investment vehicles	512.526	702.531
UK freehold properties	145.850	177.750
UK leasehold properties	53.325	51.600
	<b>831.642</b>	<b>1,071.632</b>
<b>Loans and Receivables at Amortised Cost</b>		
Sterling cash deposits	27.544	34.215
Other Sterling short term loans	211.000	330.700
Foreign currency	9.154	6.188
Other investment balances	14.174	14.246
	<b>261.872</b>	<b>385.349</b>
<b>Financial Assets</b>	<b>4,626.179</b>	<b>4,905.599</b>
<b>Financial Liabilities</b>		
<b>Level 2</b>		
Currency hedging contracts	(0.500)	(1.534)
	<b>(0.500)</b>	<b>(1.534)</b>
<b>Loans and Receivables at Amortised Cost</b>		
Other investment balances	(6.303)	(3.340)
	<b>(6.303)</b>	<b>(3.340)</b>
<b>Financial Liabilities</b>	<b>(6.803)</b>	<b>(4.874)</b>
	<b>4,619.376</b>	<b>4,900.725</b>

**PENSION FUND ACCOUNTS**  
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Below is a reconciliation of the movement in fair value measurements within Level 3 of the fair value hierarchy from the start to the end of 2018-19:

	Value at 31 Mar 2018	Purchases	Sales	Unrealised gains/ (losses)	Realised gains/ (losses)	Value at 31 Mar 2019
	£m	£m	£m	£m	£m	£m
<b>Financial Assets</b>						
<b>Level 3</b>						
<b>Pooled investment vehicles</b>						
Property – unquoted	119.941	47.130	(30.657)	3.092	0.245	139.751
Other unquoted	512.526	203.891	(40.366)	22.605	3.875	702.531
<b>Properties</b>						
UK freehold	145.850	25.450	-	6.450	-	177.750
UK leasehold	53.325	-	-	(1.725)	-	51.600
	<b>831.642</b>	<b>276.471</b>	<b>(71.023)</b>	<b>30.422</b>	<b>4.120</b>	<b>1,071.632</b>

Unrealised and realised gains and losses are recognised in the profit and losses on disposal of investments and changes in value of investments line of the fund account.

### 17. Additional Voluntary Contributions

In accordance with Regulation 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Accounts do not include employees' Additional Voluntary Contributions ("AVCs"). The amounts involved are not material in relation to the size of the overall Pension Fund.

Members may make AVCs which are invested separately from the Fund's assets. These investments are specifically allocated to the provision of additional benefits for those members. These are money purchase arrangements where the member uses the invested amount to provide an additional lump sum or to purchase an annuity or buy additional benefits in the Local Government Pension Scheme. The total value of funds provided by these contributions was:

	31 Mar 2018	31 Mar 2019
	£m	£m
<b>Equitable Life Assurance Society</b>		
With profits fund	0.219	0.182
Unit-linked funds	0.441	0.413
Total Equitable Life Assurance Society	0.660	0.595

**PENSION FUND ACCOUNTS**  
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	31 Mar 2018	31 Mar 2019
	£m	£m
<b>Standard Life</b>		
Managed fund	0.743	0.761
Multi asset managed fund	0.059	0.082
Protection fund	0.071	0.084
Ethical fund	0.104	0.104
With profits fund	0.296	0.326
<b>Total Standard Life</b>	<i>1.273</i>	<i>1.357</i>
<b>Prudential Assurance Company Ltd</b>		
Deposit fund	2.822	2.427
With profits cash accumulation fund	3.454	4.111
Blackrock Aquila	0.000	0.040
Cash fund	0.094	0.130
Discretionary fund	0.570	0.689
Dynamic growth funds	0.000	0.072
Fixed interest fund	0.077	0.091
Global equity fund	0.333	0.394
Index-linked fund	0.312	0.326
International equity fund	0.291	0.413
Property fund	0.212	0.227
Retirement protection fund	0.205	0.195
Socially responsible fund	0.072	0.116
UK equity fund	0.158	0.187
UK equity (passive) fund	0.238	0.333
<b>Total Prudential Assurance</b>	<i>8.838</i>	<i>9.751</i>
<b>Clerical Medical</b>		
With profits fund	0.344	0.218
Unit linked fund	0.049	0.158
<b>Total Clerical Medical</b>	<i>0.393</i>	<i>0.376</i>
<b>Total AVC Investments</b>	<b>11.164</b>	<b>12.079</b>
<b>Death in Service Cover</b>		
Equitable Life	<b>0.117</b>	<b>0.117</b>

**PENSION FUND ACCOUNTS**  
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Death in Service cover is payable by the AVC provider where an employee has opted to pay an extra life insurance sum. The Local Government Pension Scheme Regulations 2013 require the death grant payable for contributors into the LGPS to be three times their "final pay" (in the case of a part-time employee it is three times their actual pensionable pay). The Inland Revenue limit for death in service cover is four times "final pay", so the maximum extra amount insurable is, therefore, restricted to an amount equivalent to one times "final pay" and in the case of a part-time contributor, their actual pensionable pay. "Final pay" is defined in the above Regulations.

	<b>Equitable</b>		<b>Standard</b>	<b>Clerical</b>	
	<b>Life</b>	<b>Prudential</b>	<b>Life</b>	<b>Medical</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Value at 31 Mar 2018</b>	<b>0.660</b>	<b>8.838</b>	<b>1.273</b>	<b>0.393</b>	<b>11.164</b>
<b>Income</b>					
Contributions received	0.002	2.425	0.021	0.006	2.454
Interest and bonuses and change in market value	0.032	0.198	0.086	0.008	0.324
Transfers in		0.032	-	-	0.032
<b>Expenditure</b>					
Life assurance premiums	(0.001)	-	-	-	(0.001)
Retirement benefits	(0.094)	(1.742)	(0.017)	(0.031)	(1.884)
Transfers out and withdrawals	(0.004)	-	(0.006)	-	(0.010)
<b>Value at 31 Mar 2019</b>	<b>0.595</b>	<b>9.751</b>	<b>1.357</b>	<b>0.376</b>	<b>12.079</b>

**18. Current assets**

	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>
	<b>£m</b>	<b>£m</b>
Employers' contributions due	6.135	5.374
Employees' contributions due	1.546	1.924
Amounts owed by Derbyshire County Council	3.243	3.899
Sundry debtors	1.280	0.864
Cash balance	17.991	20.275
	<b>30.195</b>	<b>32.336</b>

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**PENSION FUND ACCOUNTS**  
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Employers' and employees' contributions due at 31 March 2019 have been received since the year-end.

**19. Current liabilities**

	31 Mar 2018	31 Mar 2019
	£m	£m
Unpaid benefits	2.551	1.768
Sundry creditors	2.989	2.706
	<b>5.540</b>	<b>4.474</b>

**20. Related party transactions**

**Derbyshire County Council**

The Council is the administering authority for the purposes of the Fund under The Local Government Pension Scheme Regulations 2013.

Included in management expenses in 2018-19 are charges from the Council of £2.269m (2017-18, £2.471m) for expenses incurred in respect of oversight and governance of the Fund, for Fund administration and for management of the Fund's in-house investments.

At 31 March 2019 the Council owed the Fund £3.899m (2018, the Council owed the Fund £3.243m).

It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 34 and 35 of the Council's Statement of Accounts.

**LGPS Central Limited**

LGPSC has been established to manage investment assets on behalf of nine LGPS funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPSC Pool, of which the Council, as the administering authority for the Fund, is one of the shareholders.

In 2017-18 the Fund incurred set-up costs in relation to LGPSC of £0.502m. At 31 March 2018 the Fund accrued income of £0.500m for the recovery of these costs. These set-up costs were reimbursed by LGPSC to the Fund in 2018-19. The Fund invested £1.315m in share capital and £0.685m in a loan to LGPSC in 2017-18. These remain the balances at 31 March 2019. The Fund was owed interest of £0.043m on the loan to LGPSC at 31 March 2019 (2017-18, £nil).



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## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

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LGPSC launched its first products on 1 April 2018 and since 3 April 2018 has managed the Fund's UK Equity portfolio on a discretionary basis. LGPSC has also provided advisory investment management services in respect of the Fund's Japanese Equities, Asia Pacific Ex-Japanese Equities and Emerging Market Equities since 11 September 2018. The charges in respect of these services totalled £0.764m in 2018-19 (2017-18, £nil), of which £0.211m was payable to LGPSC at 31 March 2019 (31 March 2018, £nil).

The Fund incurred £0.756m in respect of Governance, Operator Running and Product Development in connection with LGPSC in 2018-19 (2017-18, £nil), of which £0.125m was payable to LGPSC at 31 March 2019 (31 March 2018, £nil).

LGPSC leases office space from the Council. The lease commenced on 14 June 2018 and is for a duration of five years, with a break clause at 30 June 2021. The rental income received and receivable by the Council from LGPSC in 2018-19 amounted to £0.014m. For the duration of the lease term, subsequent years' rentals will be subject to an annual increase of 2.8%.

#### 21. Investment commitments

At the end of the financial year, investment commitments in respect of future payments were:

	31 Mar 2018	31 Mar 2019
	£m	£m
Unquoted investments	253.985	421.617
Other Sterling short-term loans	5.000	40.000
	<b>258.985</b>	<b>461.617</b>

Unquoted investments commitments are commitments to invest in Multi-Asset Credit, Private Equity, Infrastructure and Indirect Property investments, not yet drawn-down by the managers. Revisions to the Fund's approved Strategic Asset Allocation Benchmark between July 2015 and January 2019 increased the proportion of the Fund's investments required to be invested in Multi-Asset Credit, Private Equity, Infrastructure and Indirect Property investments from 5% to 22%.

This has resulted in an ongoing increase in the level of unquoted investment commitments which will be drawn-down over the next few years, as action is taken to increase the weightings in these asset classes.

Since the year-end, the Fund has signed-up to an additional €28m infrastructure commitment.

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## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

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The Other Sterling short-term loans commitments are commitments to make short-term investments at the year-end. There is no provision or creditor for these amounts in the financial statements as the legal obligation to pay was not fulfilled at 31 March 2019. These commitments will be met using funds received from the maturity of earlier investments and therefore have no impact on the financial position reported.

There were four such commitments at 31 March 2019 (2018, one), which were secured to take advantage of higher rates available at that time because of a cash shortage in the market.

## 22. Financial instruments

Many requirements of the financial instruments standards (IAS 39, IAS 32, IFRS 7 and IFRS 9), which govern the recognition, measurement, presentation and disclosure of financial instruments, are not applicable to the Fund's accounts, since all material financial instruments are carried in the net assets statement at fair value.

### Nature and extent of risks arising from financial instruments

Certain financial risks are a necessary and appropriate component of the investment strategy of the Fund in order for it to achieve the targeted long term rate of return assumed by the Fund Actuary. This rate of return is used in drawing up the Funding Strategy Statement and setting employer contribution rates.

The overall financial risk for the Fund is that its assets could be insufficient to meet its liabilities to pay benefits. At the financial instrument level, the Fund's key risks are:

- **Credit risk** – the risk of the Fund suffering loss due to another party defaulting on its financial obligations;
- **Liquidity risk** – the risk that funds might not be available to meet commitments because the Fund's assets are not readily marketable or easily turned into cash;
- **Market risk** - the risk that the Fund's financial instruments may suffer an adverse change in value, which is common to an entire class of assets or liabilities.

Responsibility for Fund investments has been delegated to the Council's Pensions and Investments Committee (the Committee). Day to day responsibility for the management of the Fund is delegated to the Director of Finance and ICT; the investments are managed by a combination of internal and external investment managers and investment advice is provided by an independent investment advisor. The Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks.

As required by the Fund's Investment Strategy Statement, the Fund is invested in accordance with the Strategic Asset Allocation guidelines, to maximise returns within appropriate levels of risk, taking into account the Fund's liabilities and projected cashflows. These Strategic Asset Allocation guidelines were approved by the Pensions and Investments Committee, following an external asset/liability study.

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## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

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Economic background, market returns, asset allocation, investment activity, investment strategy and investment performance are monitored and reviewed by the Committee on a quarterly basis.

#### **Credit risk**

The Fund is primarily exposed to credit risk through its daily treasury management activities and through its forward currency contracts, which address the currency risk on overseas bonds. Credit risk on cash deposits and short term loans arises from deposits with banks, financial institutions and UK government and local authorities. Credit risk on forward currency contracts arises from contracts with large banks.

**Treasury activities** - The Fund places security of capital and liquidity ahead of investment return. Credit risk on treasury activities is minimised through the Fund's annual Treasury Management 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 Ratings Services and are approved counterparties on this basis. Investments with local authorities, the Government's Debt Management Office, UK Treasury Bills and Certificates of Deposit are also permissible. The Fund has agreed maximum loan durations and joint limits for each counterparty.

The limits for financial institutions are based on the above credit assessment and are approved each year. The financial institutions' credit ratings and supplementary information are monitored throughout the year to ensure compliance with the policy.

The Treasury Management Investment Strategy for 2018-19 was approved by Full Council on 7 February 2018 and by the Pensions and Investments Committee on 25 April 2018.

The Fund's maximum exposure to credit risk in relation to its treasury/cash deposit investments and operating cash in banks, building societies, money market funds and UK local authorities of £391.378m (2018, £265.689m) 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, generally, for such entities to be unable to meet their commitments; the approach to risk assessment taken by the Fund makes this remote.

A risk of non-recovery applies to all of the Fund's deposits, but there was no evidence at 31 March 2019 that this was likely to occur. No breaches of the Fund's counterparty criteria occurred during the reporting period. At 31 March 2019, the Fund had £20.275m in its operational account with Lloyds Bank.

**Forward currency contracts** - Credit risk from forward currency contracts is minimised by limiting the extent of these contracts to managing the currency risk on overseas bonds, the value of which comprise 2% (2018, 2%) of investment assets at the year end and by selecting large banks as the counterparties. The forward currency contract at the year end was with Bank of New York Mellon.

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## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

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The maximum credit risk exposure on forward currency contracts is the full amount of the foreign currency which the Fund pays when the settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund. At the year end, there was one currency hedging contract, with less than six months to expiry, with a gross contract value of £93.094m (2018, one contract, with less than six months to expiry, with a gross contract value of £68.116m). The Fund does not expect any losses from non-performance by any of its counterparties in relation to this contract.

**Other financial assets** - Bonds mainly include investments in UK and US Government securities and certain corporate bond funds. The Fund does not expect any losses from non-performance by any of its counterparties in relation to these financial assets.

Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets as they are marked to market. The market value of financial assets represents the Fund's exposure to credit risk in relation to those assets.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur during settlement of transactions.

#### **Liquidity risk**

The Fund is not yet mature and is cash flow positive each year in respect of its dealings with members. There is, therefore, no present requirement to realise assets in order to meet liabilities to pay benefits, as these are more than covered by contributions and investment income, and there is net cash available for investment. The Fund does, however, sell investments from time to time as part of normal investment management activities.

The majority of the Fund's investments are readily marketable and may be easily realised, if required. Emphasis is placed on treasury deposits of up to six months' duration to ensure that longer term investment strategy is not compromised by lack of liquidity. Listed equities may also be liquidated at short notice, normally two working days. Holdings of investments which may be less easy to realise are limited. Current Pensions and Investments Committee guidelines limit investments in property to 12%, multi asset credit to 8%, infrastructure to 11% and private equity to 6%.

Sufficient funds are retained on instant access accounts to ensure that payment of benefits and the settlement of investment transactions can be made without the need to borrow.

The Fund manages its liquidity position using a comprehensive cash flow management system, as required by the CIPFA Code of Practice.

Maturity analysis for liabilities at the year end:

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## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

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- There were no financial liabilities within the portfolio at the year end other than those that arose from the trading of investments. Such liabilities fall due within 12 months of the year end.

- There were one derivative financial liability held at the year-end in respect of the currency hedging contract referred to above (2018, one).

#### **Market risk**

The Fund is exposed to market risk because it is inherent in the investments the Fund makes. It can result from changes in such measures as interest and exchange rates and changes in prices due to factors other than these. This risk cannot be eliminated but it can be reduced.

The objective of market risk management is to manage and control market risk exposure to within acceptable parameters, whilst optimising the return on risk. Excessive volatility in market risk is managed through diversification. Risk reduction arises from the different investments not being perfectly correlated.

The Fund has applied diversification at various levels; that is, diversification between countries, asset classes, sectors and individual securities. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

Risk of exposure to specific markets is limited by adhering to defined ranges within the asset allocation guidelines, which are monitored and reviewed by the Committee on a quarterly basis.

**Interest rate risk** – This risk primarily impacts on the valuation of the Fund's bond holdings and to a lesser degree the return it receives on cash held. A rise in interest rates would have the following effects:

- investments at variable rates – the interest income credited to the Fund Account would rise;
- investments at fixed rates – the fair value of the assets would fall.

The Fund has a number of strategies for managing interest rate risk. Interest rates and the durations of the bond portfolios are monitored during the year, by the Fund's in-house and external managers. Within the annual Treasury Management Strategy, maximum limits are set for fixed and variable interest rate exposure. 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, subject to liquidity requirements.

## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

**Other price risk** – Other price risk originates from factors specific to the individual instrument or to its issuer, or from factors affecting all instruments in the market.

The Fund manages price risk by holding fixed interest bonds, index-linked stocks and property and by holding a diversified equity portfolio spread geographically, across market sectors and across investments. Contracts specify the level of risk to be taken by the external Fund managers investing in overseas equities. These external managers are monitored by in-house managers.

A Fund specific benchmark has been drawn up, which is designed to meet the Fund's performance requirements for the level of risk agreed by the Committee. Economic background, asset allocation, recent transactions, investment strategy and performance are monitored by the Committee on a quarterly basis.

The table below quantifies the level of price risk that the Fund's investment assets and liabilities at 31 March 2019 are potentially exposed to. Potential price changes are determined based on the observed historical volatility of asset class returns, for example, 'riskier' assets such as equities display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. The volatility shown for total investment assets and liabilities in both tables below incorporates the impact of correlation across asset classes, which dampens volatility, therefore the value on increase/decrease figures of the asset classes will not sum to the total assets figure.

	Value at 31 Mar 2019		Value on increase	Value on decrease
	£m	Change %	£m	£m
<b>Underlying asset type</b>				
UK Government bonds	229.952	6.09	243.956	215.948
UK index-linked	226.006	9.00	246.347	205.665
UK corporate bonds	295.998	4.89	310.472	281.524
Overseas index-linked	54.394	7.47	58.457	50.331
Overseas bonds	263.303	3.29	271.966	254.640
UK equities	885.964	9.35	968.802	803.126
Overseas equities	1,840.945	10.15	2,027.801	1,654.089
Alternatives	330.551	5.09	347.376	313.726
Cash	371.103	0.12	371.548	370.658
Other investment balances	10.906	-	-	-
Properties (non-financial instruments)	391.603	2.96	403.194	380.012
<b>Total investment assets and liabilities</b>	<b>4,900.725</b>	<b>6.33</b>	<b>5,210.941</b>	<b>4,590.509</b>

## PENSION FUND ACCOUNTS

### NOTES TO THE PENSION FUND ACCOUNTS

**Currency risk** - The Fund is exposed to currency risk through its overseas equity shares, its overseas bonds and its foreign currency holdings. The overseas equity exposure is not hedged; if Sterling weakens this currency exposure will make a positive contribution to the Fund's performance in Sterling terms. The overseas bond exposure is hedged.

The table below quantifies the level of currency risk that the Fund's overseas investment assets at 31 March 2019 are potentially exposed to. Currency risk on overseas sovereign bonds is managed using forward currency contracts, therefore sovereign overseas bonds have been excluded from the table. Potential aggregate currency exposure within the Fund at 31 March 2019 is determined using a currency "basket" based on the Fund's currency mix at that date. The weight of each currency multiplied by the change in its exchange rate relative to Sterling is summed to create the aggregate currency change of the basket. The outcomes are then applied to all unhedged overseas assets.

	Value at 31 Mar 2019	Change	Value on increase	Value on decrease
	£m	%	£m	£m
<b>Underlying asset type</b>				
Overseas equities	1,840.945	11.02	2,043.817	1,638.073
Overseas bonds	10.547	11.02	11.709	9.385
Overseas cash	6.188	10.31	6.826	5.550
<b>Overseas investment assets</b>	<b>1,857.680</b>	<b>11.02</b>	<b>2,062.396</b>	<b>1,652.964</b>

### 23. Actuarial Present Value of Promised Retirement Benefits

Below is an extract from the Report of the Actuary, showing the actuarial present value of the Fund's promised retirement benefits, required by the Code. If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation is carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

*"The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises. The figures below include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.*

**PENSION FUND ACCOUNTS**  
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	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>
	<b>£m</b>	<b>£m</b>
Active members	3,153.000	3,820.000
Deferred members	1,163.000	1,305.000
Pensioners	1,947.000	1,954.000
<b>Present Value of Promised Retirement Benefits</b>	<b>6,263.000</b>	<b>7,079.000</b>

*It should be noted the above figures are appropriate for the Administering Authority only for the preparation of the Pension Fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).*

**Assumptions**

*The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £547m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.*

*Financial assumptions*

	<b>31 Mar 2018</b>	<b>31 Mar 2019</b>
<b>Year ended (% p.a.)</b>	<b>%</b>	<b>%</b>
Pension Increase Rate	2.40	2.50
Salary Increase Rate	2.90	3.00
Discount Rate	2.70	2.40

*Longevity assumptions*

*Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:*

	<b>Males</b>	<b>Females</b>
Current Pensioners	21.9 years	24.4 years
Future Pensioners*	23.9 years	26.5 years

*\*Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2016.*

*Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.*



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## PENSION FUND ACCOUNTS

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#### *Commutation assumptions*

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

#### **Sensitivity Analysis**

*CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:*

<b>Sensitivity to the assumptions for the year ended 31 Mar 2019</b>	<b>Approximate increase to liabilities %</b>	<b>Approximate monetary amount £m</b>
<i>0.5% p.a. increase in the Pension Increase Rate</i>	8	593
<i>0.5% p.a. increase in the Salary Increase Rate</i>	2	115
<i>0.5% p.a. decrease in the Real Discount Rate</i>	11	757

*The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.”*

*Barry Dodds FFA*

*9 April 2019*

*For and on behalf of Hymans Robertson LLP*

## **24. Participating Employers**

The participating employers with active members in the Fund are Derbyshire County Council (which is also the Administering Authority), Derby City Council (Unitary Authority), District Councils (which are Scheduled Bodies), further Scheduled Bodies and Admission Bodies. The Unitary and District Councils are listed in the foreword of this Annual Report. Other participating employers are listed on the following pages.

The contributions receivable and the benefits payable by the Fund during the year in respect of each type of participating employer were as follows:

**PENSION FUND ACCOUNTS**  
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	2017-18		2018-19	
	Benefits payable	Contributions receivable	Benefits payable	Contributions receivable
	£m	£m	£m	£m
Derbyshire County Council	73.616	69.575	77.156	69.871
Scheduled Bodies	76.104	90.472	78.346	119.592
Admission Bodies	5.660	4.373	5.428	4.252
	<b>155.380</b>	<b>164.420</b>	<b>160.930</b>	<b>193.715</b>

The contribution rates payable by the County, Unitary and District Councils expressed as a percentage of pensionable payroll and fixed cash amounts are:

Council	2018-19	2019-20
Derbyshire County	14.5% plus £15.382m	14.5% plus £15.536m
Derby City	13.5% plus £6.912m	13.5% plus £6.981m
Amber Valley Borough	14.0% plus £1.047m	14.0% plus £1.057m
District of Bolsover	13.9% plus £0.953m	13.9% plus £0.962m
Chesterfield Borough	14.2% plus £1.971m	14.2% plus £1.991m
Derbyshire Dales	13.6% plus £0.639m	13.6% plus £0.645m
Erewash Borough	13.1% plus £1.114m	13.1% plus £1.125m
High Peak Borough	12.4% plus £1.815m	12.4% plus £1.833m
North East Derbyshire	13.7% plus £1.512m	13.7% plus £1.527m
South Derbyshire	13.8% plus £0.671m	13.8% plus £0.678m

The contribution rates payable by other Scheduled Bodies, expressed as a percentage of pensionable payroll are:

	Total contribution rate % of pensionable payroll	
	2018-19	2019-20
<b>Scheduled Bodies</b>		
Peak District National Park Authority	14.0 plus £0.221m	14.0 plus £0.224m
Chesterfield Crematorium	17.8 plus £0.029m	17.8 plus £0.020m
Derbyshire Police Authority	12.9 plus £1.451m	12.9 plus £1.465m
Derbyshire Fire & Rescue	13.2 plus £0.168m	13.2 plus £0.170m
Derby Homes Limited	13.4 plus £0.287m	13.4 plus £0.290m
Rykneld Homes	16.4	16.4
University of Derby	12.7 plus £0.738m	12.7 plus £0.745m

**PENSION FUND ACCOUNTS**  
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	<b>Total contribution rate % of pensionable payroll</b>	
	<b>2018-19</b>	<b>2019-20</b>
Chesterfield College	12.9 plus £0.156m	13.9 plus £0.158m
Derby College	13.7 plus £0.437m	13.7 plus £0.441m
Landau Forte College	12.3 plus £0.003m	12.3 plus £0.003m
Akaal Academy Trust Derby	19.5	19.5
Aldecar Infant School - from 1 December 2018	21.0	21.0
Allenton Primary	27.9	27.9
All Saints Infants School	21.0	21.0
All Saints Junior School	21.0	21.0
All Saints Catholic Voluntary Academy (Glossop) - from 1 September 2018	21.0	21.0
Alvaston Junior Academy - from 1 September 2018	21.0	21.0
Arboretum Primary School - from 1 February 2019	21.0	21.0
Ash Croft Primary Academy - from 1 June 2018	21.0	21.0
Ashwood Spencer Academy - from 1 November 2018	21.0	21.0
Bishop Lonsdale Church of England Primary School	25.8	25.8
Bolsover Church of England Junior	21.0	21.0
Breadsall Hill Top Primary	21.0	21.0
Brimington Infant School	18.9	18.9
Brimington Junior School	18.3	18.3
Brookfield Academy	20.0	20.0
Cavendish Close Junior	21.0	21.0
Cavendish Multi-Academy Trust	19.3	19.3
Chaddesden Park Primary - from 1 April 2018	21.0	21.0
Chellaston Academy	20.9	20.9
Christ Church Church of England Primary School	21.5	21.5
Christ The King Catholic Voluntary Academy (Alfreton) - from 1 September 2018	21.0	21.0
Cloudside Junior	21.0	21.0
Cotton Farm Primary Academy - from 1 September 2018	21.0	21.0
Da Vinci Academy	21.0	21.0
Darley Churchtown Primary	21.0	21.0
David Neiper Academy	17.8	17.8
Derby Cathedral School - from 1 September 2018	21.0	21.0

**PENSION FUND ACCOUNTS**  
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	Total contribution rate % of pensionable payroll	
	2018-19	2019-20
Derby Manufacturing University Technical College	21.1	21.1
Derby Moor Community Sports College	21.0	21.0
Derby Pride Academy	15.5	15.5
Derby St Chads C of E (VC) Nursery and Infant School - from 1 December 2018	21.0	21.0
Derwent Primary	21.0	21.0
Djanogly Learning Trust (Multi-Academy Trust) - from 1 January 2019	21.0	21.0
Dovedale Primary School (Willows Academy Trust)	20.9	20.9
Ecclesbourne Academy	22.6	22.6
Eckington Junior	19.4	19.4
Eckington School - from 1 April 2018	21.0	21.0
English Martyrs Catholic Voluntary Academy	18.5	18.5
Esteem Multi-Academy Trust - from 1 August 2018	21.0	21.0
Firs Estate Primary School	21.0	21.0
Frederick Gent	21.0	21.0
Friesland School - from 1 June 2018	21.0	21.0
Gamesley Primary School - from 1 December 2018	21.0	21.0
Grampian Primary Academy	19.2	19.2
Granville Sports College	21.0	21.0
Griffe Field Primary School - from 1 December 2018	21.0	21.0
Hardwick Primary	21.0	21.0
Heanor Gate Science College	20.5	20.5
Heath Primary School - from 1 December 2018	21.0	21.0
Heritage High School	21.0	21.0
Hilton Primary School - from 1 October 2018	21.0	21.0
Holbrook Primary School	22.4	22.4
Hope Valley College	23.3	23.3
Horsley Woodhouse Primary School - from 1 December 2018	21.0	21.0
Howitt Primary Community School - from 1 December 2018	21.0	21.0
Inkersall Primary School	20.2	20.2

**PENSION FUND ACCOUNTS**  
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	Total contribution rate % of pensionable payroll	
	2018-19	2019-20
Immaculate Conception Academy Trust	20.7	20.7
Ironville and Codnor Park Primary	21.0	21.0
John King Infant	21.0	21.0
John Port Academy	20.4	20.4
John Flamsteed Community School	20.2	20.2
Kilburn Junior School - from 1 December 2018	21.0	21.0
Kirk Hallam Academy	18.4	18.4
Kirkstead Junior Academy	21.0	21.0
Lakeside Community Primary School - from 1 January 2019	21.0	21.0
Landau Forte Moorhead Academy	19.6	19.6
Langwith Basset Junior Academy - from 1 June 2018	21.0	21.0
Leesbrook School	19.7	19.7
Longwood Community Infant	21.0	21.0
Loscoe C of E Primary School and Nursery - from 1 November 2018	21.0	21.0
Mary Swanwick Primary	21.0	21.0
Merrill Academy	22.5	22.5
Newbold Church of England Primary School	17.3	17.3
New Whittington Primary	21.0	21.0
Noel Baker School	21.0	21.0
Odyssey Trust (Multi-Academy Trust) - from 1 March 2019	21.0	21.0
Outwood Academy Newbold	20.2	20.2
Peartree Junior	21.0	21.0
Pennine Way Junior Academy	19.7	19.7
QEGS Multi-Academy Trust	21.6	21.6
Redhill Primary School	20.7	20.7
Reigate Park Primary Academy - from 1 September 2018	21.0	21.0
Sawley Infant School (Willows Academy Trust)	20.0	20.0
Sawley Junior School (Willows Academy Trust)	21.2	21.2
Scargill Primary	21.0	21.0
Shardlow Primary School (Willows Academy Trust)	23.3	23.3
Shirebrook Academy	20.4	20.4

**PENSION FUND ACCOUNTS**  
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	Total contribution rate % of pensionable payroll	
	2018-19	2019-20
Somercotes Infant School	21.0	21.0
Somerlea Park Junior	21.0	21.0
St Alban's Catholic Voluntary Academy (Derby) - from 1 September 2018	21.0	21.0
St Anne's Catholic Voluntary Academy (Buxton) - from 1 September 2018	21.0	21.0
St Benedict Voluntary Catholic Academy	22.0	22.0
St Charles' Catholic Primary Voluntary Academy (Hadfield) - from 1 September 2018	21.0	21.0
St Edward's Catholic Academy	20.0	20.0
St Elizabeth's Catholic Voluntary Academy (Belper) - from 1 September 2018	21.0	21.0
St George's Primary (New Mills)	21.0	21.0
St George's Voluntary Catholic Academy	20.1	20.1
St Giles Church of England Aided Primary School	20.3	20.3
St Giles Primary (Killamarsh)	21.0	21.0
St John Fisher Catholic Voluntary Academy	21.7	21.7
St John Houghton Catholic Voluntary Academy	20.6	20.6
St Joseph's Catholic Primary School (Matlock)	20.0	20.0
St Joseph's Catholic Primary School Voluntary Academy	17.6	17.6
St Joseph's Catholic Voluntary Academy (Derby) - from 1 September 2018	21.0	21.0
St Laurence Primary School	21.2	21.2
St Margaret's Catholic Voluntary Academy (Glossop) - from 1 September 2018	21.0	21.0
St Mary's Catholic High School Academy Trust	21.4	21.4
St Mary's Catholic Voluntary Academy (Derby) - from 1 September 2018	21.0	21.0
St Mary's Catholic Voluntary Academy (Glossop) - from 1 September 2018	21.0	21.0
St Mary's Catholic Voluntary Academy (New Mills) - from 1 September 2018	21.0	21.0
St Philip Howard Catholic Voluntary Academy	20.2	20.2
St Thomas Catholic Voluntary Academy (Ilkeston) - from 1 September 2018	21.0	21.0

**PENSION FUND ACCOUNTS**  
**NOTES TO THE PENSION FUND ACCOUNTS**

	<b>Total contribution rate % of pensionable payroll</b>	
	<b>2018-19</b>	<b>2019-20</b>
St Thomas More Catholic Voluntary Academy (Buxton) - from 1 September 2018	21.0	21.0
Street Lane Primary School - from 1 May 2018	21.0	21.0
Swanwick Hall School	20.2	20.2
Temple Normanton Primary	21.0	21.0
The Bolsover Academy	20.9	20.9
The Long Eaton Academy	19.9	19.9
The Ormiston Ilkeston Enterprise Academy	23.7	23.7
The Pingle Academy	21.0	21.0
The Ripley Academy	25.0	25.0
Turnditch Church of England Primary School	20.2	20.2
Village Primary School - from 1 May 2018	21.0	21.0
Walter Evans Primary School	21.0	21.0
Walton On Trent C of E Primary and Infant School - from 1 December 2018	21.0	21.0
West Park Academy	21.2	21.2
William Gilbert Endowed (C of E) Primary School	21.2	21.2
Wilsthorpe School - from 1 December 2018	21.0	21.0
Woodlands School	19.9	19.9
Wyndham Primary Academy (Boulton Primary School)	16.7	16.7
Zaytouna Primary School (previously Al-Madinah School)	20.0	20.0
Town and Parish Councils - Group 1	23.8	23.8
Town and Parish Councils - Group 2	17.2	17.2

**PENSION FUND ACCOUNTS**  
**NOTES TO THE PENSION FUND ACCOUNTS**

**Town and Parish Councils**

<b>Group 1</b>	<b>Group 2</b>
Ashbourne Town Council	Alfreton Town Council
Belper Town Council	Blackwell Parish Council
Clay Cross Parish Council	Breaston Parish Council
Dronfield Town Council	Bretby Parish Council
Eckington Parish Council	Burnaston Parish Council
Killamarsh Town Council	Clowne Parish Council
Matlock Town Council	Codnor Parish Council
New Mills Town Council	Darley Dale Town Council
Old Bolsover Town Council	Draycott Parish Council
Pinxton Parish Council	Elvaston Parish Council
Shirebrook Town Council	Glapwell Parish Council
Staveley Town Council	Hatton Parish Council
Whitwell Parish Council	Hearnor and Loscoe Town Council
Wirksworth Town Council	Heath and Holmewood Parish Council
	Kilburn Parish Council
	North Wingfield Parish Council
	Shardlow and Great Wilne Parish Council
	Stenson Fields Parish Council
	Tibshelf Parish Council
	Ticknall Parish Council
	Tupton Parish Council
	Wingerworth Parish Council
	Woodville Parish Council

The contribution rates payable by Admission Bodies, expressed as a percentage of pensionable payroll are:



**PENSION FUND ACCOUNTS**  
**NOTES TO THE PENSION FUND ACCOUNTS**

	<b>Total contribution rate % of pensionable payroll</b>	
	<b>2018-19</b>	<b>2019-20</b>
7 Hills Leisure Trust	25.3	25.3
Waterloo Housing Group	28.1 plus £0.018m	28.1 plus £0.018m
Action for Children	28.1	28.1
Active Nation	28.2 plus £0.002m	28.2 plus £0.002m
Alliance Environmental Services Ltd	16.9	16.9
Amber Valley Schools Sports Partnership	21.0	21.0
Arvato Government Services Ltd (Derbyshire Dales)	13.8	13.8
Arvato Government Services (Sefton) Ltd	14.5	14.5
Aspens Services Ltd	28.2 plus £0.001m	28.2 plus £0.001m
Balfour Beatty Power Networks Ltd	16.5	16.5
Balfour Beatty (Derby BSF)	20.6	20.6
Barnados	21.1	21.1
Belper Leisure Centre Ltd	31.4	31.4
Brookwood - to 31 August 2018	14.4	0.0
Caterlink Ltd (Abercrombie) - from 10 April 2018	0.0	27.8
Caterlink Ltd (Lea Primary)	30.2	30.2
Caterlink Ltd (Reigate Primary)	27.9	27.9
Caterlink Ltd (Shirebrook/Stubbin Wood)	31.0	31.0
Caterlink Ltd (St Marys)	31.2	31.2
Caterlink Ltd (St Marys High School) - from 1 August 2018	0.0	31.8
Caterlink Ltd (Swanwick Hall)	32.6	32.6
Chesterfield Care Group	25.2	25.2
Churchill Contractor Services (St Marys) - from 1 September 2018	0.0	33.9
Clean Slate (UK) Ltd (Pottery)	30.4 plus £0.001m	30.4 plus £0.001m
Compass Contract Services (UK) Ltd	10.3	10.3
Compass Services Ltd (DCC)	16.5	16.5
Connex Community Support	33.3	33.3
CSE Education	29.0	29.0
Derby County Community Trust	23.1	23.1
Derby Museums & Arts Trust	19.2	19.2
Derbyshire Building Control	23.2	23.2

**PENSION FUND ACCOUNTS**  
**NOTES TO THE PENSION FUND ACCOUNTS**

	Total contribution rate % of pensionable payroll	
	2018-19	2019-20
Derbyshire Student Residences Ltd	25.8	25.8
Elite Cleaning and Environmental Services	32.8	32.8
EMH Homes	22.3 plus £0.161m	22.3 plus £0.161m
Futures Homescape Ltd	23.9 plus £0.103m	23.9 plus £0.103m
Interserve Catering Services Ltd	20.2	20.2
Interserve Integrated Services Ltd	7.1	7.1
KCLS Ltd (Tibshelf Infant)	34.4	34.4
Kier Ltd	13.8	13.8
Leisure Amber Valley BC	13.8	13.8
Leisure High Peak BC	1.4	1.4
Macintyre Care Ltd	2.0	2.0
Mellors Catering	25.7	25.7
Mellors Catering (Murray Park)	31.7	31.7
Mitie Facilities Services Ltd	37.7	37.7
Norwest Holst Ltd (previously Vinci plc)	33.0	33.0
NSL Ltd	22.3	22.3
Office Care Ltd (Brookfield Academy)	29.5	29.5
RM Education Ltd	28.8	28.8
SIV Enterprises Ltd	4.6	4.6
Superclean Services Wothorpe Ltd (Fire)	11.2	11.2
Taylor Shaw	34.7	34.7
Tramway Museum Society	24.0 plus £0.015m	24.0 plus £0.015m
Veolia (Amber Valley Refuse)	6.1	6.1
Veolia (Chesterfield Refuse)	17.5	17.5
Vinci Construction - to 30 June 2018	18.8	0.0
Vinci Construction UK (Ashcroft & Portway)	31.7	31.7
Vinci plc (Ravensdale)	29.9	29.9
Ward Recycling - from 28 April 2018 to 18 November 2018	0.0	88.6
Wealdon Leisure - from 1 August 2018	0.0	24.5

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## AUDITOR'S OPINION

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# ACCOUNTING POLICIES

## INTRODUCTION

The Accounting Policies for Derbyshire County Council (the Council) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting (the Code). Where there is no specific guidance in the Code, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
  - Represent fairly the financial position, financial performance and cash flows of the entity;
  - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - Are neutral i.e. free from bias;
  - Are prudent; and
  - Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2018-19 financial year.

The accounting policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authority's accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable. A Glossary of Terms can be found at the end of this document.

The document has been divided into four distinct categories which are Accounting Principles, Capital Accounting, Revenue Accounting and Treasury Management, with each policy being assigned a policy number.

## **ACCOUNTING PRINCIPLES**

### **1.1. Going Concern**

The Council prepares its accounts on the basis that it remains a going concern; that is that there is the assumption that the functions of the Council will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Council would still account on the basis of going concern as the provision of services would continue in another Council.

### **1.2. Accruals Concept**

The Council accounts for income and expenditure in the period in which the provision of goods or service has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet.

### **1.3. Cost of Services**

Internal support service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2018-19 (SerCOP).

Where possible the full cost of support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties, or any other operational cost that cannot be reasonably attributed to a specific service.

### **1.4. Value Added Tax**

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from the same. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts either due or owed.

### **1.5. Changes in Accounting Policy**

Where there is a known future change in accounting policy required by the CIPFA Code, the Council will disclose the following in the notes to the accounts:

- The nature of the change in accounting policy;
- The reasons why applying the new accounting policy provides reliable and more relevant information;

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- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Council will also disclose information relating to an accounting standard which has been issued but not yet adopted.

### 1.6. Prior Year Adjustments

These typically arise from omissions and misstatements in the Council's financial statements for one or more prior periods. For the error to be a prior year adjustment, it would need to have arisen from a failure to use or misuse, reliable information that:

- a) Was available when financial statements for those periods were authorised for issue; and
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, misunderstanding in applying accounting policies, oversights or misinterpretations of facts, and fraud.

They may also arise for reasons such as changes in Statutory Accounting Standards, which are required to be applied retrospectively.

Where required changes are thought to be significant, an adjustment will be entered into the financial statement's comparative year balances, and the columns headed 'restated'. In addition full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

Errors which are found and are not significant (this includes material errors) will not result in a prior year adjustment and will be corrected as a current year entry. In addition, errors as a result of information which was not known to the Council, or could not have reasonably been obtained by the Council when the accounts were authorised for issue will also be treated as an in year adjustment.

### 1.7. Unidentified Income

All unidentified income received is initially coded to an income suspense account. Individual amounts below £10 are written off due to immateriality. Weekly updates of the content of the suspense accounts are circulated to finance departments, to ensure the balances are cleared quickly. Any items of income below £10,000 which remain unidentified for six months will be written off. Items above £10,000 will be written off after 12 months.

**1.8. Events after the Balance Sheet Date**

Where there is a material post balance sheet event before the date the accounts are authorised for issue, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will be shown in the accounts.

**1.9. Exceptional Items**

Exceptional items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

**1.10. Contingent Assets and Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of 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. They are not recognised in the Balance Sheet but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**CAPITAL ACCOUNTING****1.11. Recognition of Capital Expenditure (de-minimis Policy)**

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets as:

- Assets where it is expected that future economic benefit will flow to the Council.
- Assets where the cost can be measured reliably.

and defines them as :-

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.

The initial measurement of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.



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- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Council incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.

Subsequent expenditure are costs incurred to add to, replace part of, or service the asset, but do not include day-to-day repairs and maintenance and are treated as capital when

- The expenditure will substantially increase the market value of the asset.
- The expenditure will substantially increase the extent to which the Council can use the asset for the purpose, or in conjunction with the functions of the Council.

Where a component is replaced, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above.

The Council has two levels of de-minimis for recognition of capital expenditure, £10,000 and £500,000:

- £10,000 and below – all expenditure at this level is deemed to be non-enhancing unless funded by a Capital grant, and therefore is charged to revenue as it is incurred. This includes initial recognition of assets and subsequent asset expenditure.
- Above £500,000 - expenditure meeting the definitions above will be treated as capital expenditure, either as initial recognition or as an enhancement. However, in order to ensure that the subsequent asset expenditure is enhancing the value of the asset, the Council will instruct a valuation of the asset by a Royal Institute of Chartered Surveyors (RICS) qualified valuer, and any impairment or additional enhancement recognised as necessary.
- Any expenditure above £10,000 and below £500,000 will be treated as capital expenditure as the amount is significant enough to increase the useful life of an asset, however is not material enough to warrant individual impairment review, until the time the asset would normally be valued.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

The Code of Practice on Local Authority Accounting in the UK – Guidance Notes for Practitioners 2014-15, included detail on the recognition of schools transactions and consolidation issues relating to schools. The Council has assessed whether Voluntary Aided, Voluntary Controlled and Foundation Schools should be included within the balance sheet, based upon an assessment of ownership and control of the assets. Maintained schools are already held on the balance sheet as the Council controls these entities and therefore all transactions relating to maintained schools are recognised in these accounts. Other types of schools such as Voluntary Aided, Voluntary Controlled and Foundation schools are subject to a test of ownership. The Council recognises a school's assets on its balance sheet where it directly owns them and/or the Council retains substantive rights over the assets and the future economic benefits/service potential of school assets flow to the Council or rights to use the assets have been transferred from another entity.

### 1.12. Donated Assets

These are acquired at less than fair value or transferred for nil consideration. When the Council receives a donated non-current asset, the initial recognition of the asset will be at fair value.

Once any condition attached to the donation has been satisfied, the credit which is the difference between any cash payment and fair value will be treated as income in the relevant service in the Comprehensive Income and Expenditure Statement. To ensure there is no impact on Council Tax this will then be reversed in the Movement in Reserves Statement and credited to the Capital Adjustment Account.

Until the condition has been satisfied the credit will be recognised in the Donated Assets account. If there is no condition, the recognition of the credit in the Comprehensive Income and Expenditure Statement will occur upon acquisition of the asset.

The fair value of an asset will be assessed upon acquisition; this will be provided by a RICS qualified valuer for property assets and another relevant valuation specialist for other types of asset. After initial recognition, donated assets are treated in the same way as similar owned assets.

### 1.13. Non-Current Asset Classification

The Council manages its assets in the following categories:

#### ➤ **Intangible Assets**

In line with International Accounting Standard 38 (IAS 38), the Council recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in Accounting Policy 1.11.

#### ➤ **Property, Plant and Equipment Assets**

Property Plant and Equipment Assets are subcategorised into Operational Land & Buildings, Community Assets, Vehicles Plant & Equipment, Infrastructure Assets, Non-Operational Assets, these being Surplus Assets, Assets under Construction and Investment Properties.

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- Land and/or Buildings Assets.

These assets are recorded, valued and accounted for based on their significant components in line with IAS 16. The Council recognises a significant asset to be 25% of the total asset base. A component would be recognised if its expenditure in a given financial year exceeds 25% of the total value of the significant asset and has a substantially different life to the overall asset:

  - Combined Group containing Flat Roof & Mechanical Engineering (Internal Works i.e. boiler system)
  - Land
  - Temporary Buildings (sheds / portacabins)
  - Combined group containing permanent structure, external works (i.e. car park), pitched roof and components of less than 25% of the overall structure value
  - Other unique features (e.g. a swimming pool)
  
- Community Assets

These are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.
  
- Infrastructure Assets

These include all tangible (physical) assets required within the Council's road networks. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.
  
- Vehicles, Plant and Equipment Assets and Assets Under Construction

These assets are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.
  
- Non-Operational (Surplus) Assets

Surplus assets are assets that are not being used to deliver services, and do not meet the criteria to be classified as either investment properties or held for sale. All surplus assets under IFRS13 which came into effect and were adopted by the Council from 1 April 2015 are to be valued at Fair Value and depreciated accordingly.

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➤ **Investment Property Assets**

These are items of land and / or buildings held by the Council solely for the purpose of rental income generation or capital appreciation or both.

As such where there is a service of the Council being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some Assets Under Construction may also be classified as Investment Properties where the intended eventual use is rental income generation or capital appreciation.

➤ **Heritage Assets**

Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations are classified as Heritage Assets.

➤ **Assets Held for Sale**

The Council will classify assets as held for sale where all of the following criteria have been met:

- The asset is in the condition required for sale and is vacant.
- The asset's sale is highly probable.
- The asset has been advertised for sale and a buyer sought.
- The completion of the sale is expected within 12 months.

In situations where it is not necessary to carry out active marketing the advertised for sale test is treated as not applicable rather than failed.

Assets which become non-operational which do not meet all of the criteria set out as assets Held for Sale will be classified as surplus. If at a later point in time the asset no longer meets the criteria of Held for Sale, it is restored to its previous classification and all transactions which would have occurred shall be retrospectively applied as though the asset had never been held for sale. Investment Properties which become available for sale remain as Investment Properties.

Assets meeting the criteria as Held for Sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meeting the criteria to be Held for Sale; may undergo a change in circumstance beyond the control of the Council resulting in the sale being delayed beyond 12 months. In these instances the Council follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets. Due to the circumstances around the definition, it is expected that this will occur very rarely.

### 1.14. Non-Current Asset Valuation Methodology

The various classifications of assets as outlined in Accounting Policy 1.13 are valued on a differing base. Where not explicitly stated otherwise, property revaluations are completed by a RICS qualified valuer (who is internal to the Council), over a 'short period', interpreted to mean on a five year rolling programme for each class of asset i.e. 20% of the Council's assets are revalued at the 1 April for the financial year. However an impairment review to consider if any material degradation or other impairment has occurred during the financial year is then completed at the Balance Sheet date.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the Revaluation Reserve. This is then reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain. Where there is a revaluation resulting in a lower than carrying amount valuation, this is treated in line with Accounting Policy 1.15 – impairment of Non-Current Assets.

The Council, as per the reporting standard, values its assets and liabilities in accordance with section 2.10 of the Code of Practice on Local Authority Accounting in the United Kingdom to reflect the adoption of IFRS13 Fair Value Measurement 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 and 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
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value of an asset or liability is measured 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 participants 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.

IFRS13 requires all assets to be measured at Current Value and the basis of valuation will be determined using the following criteria:

Existing use value for the following assets:

- Depreciated replacement cost – specialised assets
- Existing use value – non-specialised assets
- Existing use value – social housing

Fair value for the following assets:

- Investment assets
- Surplus assets
- Assets Held for Sale

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The Council uses valuation techniques, as required by IFRS13, which maximise the use of relevant observable inputs and minimise the use of unobservable inputs and that are appropriate in the circumstances and for which sufficient data is available.

Observable inputs are inputs that are developed using market data, such as publically available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The Council follows the fair value hierarchy which categorises inputs to the valuation techniques in respect of assets and liabilities into three levels for which fair value is measured or disclosed in the Council's financial statements, these include:

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities
- 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

Highest priority is given to Level 1 inputs (unadjusted) in active markets and lowest priority to Level 3.

Upon the revaluation of a Surplus Asset at the 31<sup>st</sup> March of the financial year, based on the inputs available at the date of valuation the valuer will establish the IFRS 13 Valuation Input Level for the valuation and will compare this with the IFRS 13 Valuation Input Level for the previous valuation. Where the Input Level is different from that of the previous valuation this will be specifically reported with the valuation together with a narrative description of the reasons and differing circumstances that have resulted in the change.

Valuations are completed under IFRS 13 as follows:

- **Intangible Assets** – the Council recognises Intangible Assets at cost. The Council will revalue intangible assets annually where there is a determinable market value for the asset.
- **Property Plant and Equipment (PPE)** – Property Assets are held at current value which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with United Kingdom Practice Statement (UKPS) 1.3 of the RICS Valuation Standards. Where no other valuation method can be used, Depreciated Replacement Cost (DRC) is used. Vehicles, Plant and Equipment, IT Hardware, and Assets Under Construction within PPE are held at historic cost (not valued).

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- **Infrastructure Assets** – the Council recognises Infrastructure Assets at Depreciated Historical Cost.
- **Investment Property Assets** – Investment Properties are annually revalued at fair value which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes Investment Property Under Construction. The fair value of Investment Property held under a lease is the lease interest.
- **Community Assets** – the Council recognises Community Assets at historic cost.
- **Heritage Assets** – where it is possible to determine a valuation for Heritage Assets, then the Council will recognise the asset in the Balance Sheet at that valuation. All Heritage Assets are disclosed in the notes to the accounts, even where they are not held in the Balance Sheet. Where there is evidence of impairment to Heritage Assets e.g. where an item has suffered a physical deterioration or where there is a doubt to the authenticity of a piece of art, any impairment is recognised and measured in accordance with the Council's general policies on impairment.
- **Assets Held for Sale** – Assets held for sale are, at initial classification and at the end of each reporting year, valued at the lower of carrying amount and fair value less costs to sell and depreciation on these assets should cease.
- **Surplus Assets** - Surplus assets from 1 April 2015 are to be valued at Fair Value in accordance with section 2.10 IFRS 13.

### 1.15. Impairment of Non-Current Assets

This accounting policy has been created in accordance with IAS 36.

Impairment is the amount to which the carrying value of an asset exceeds the recoverable amount.

At the end of each reporting period the Council assesses whether there is any indication that an asset may be impaired.

The Council recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

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Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains). Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

### 1.16. Disposal of Non-Current Assets

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as Capital Receipts. Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the Capital Adjustment Account via the Movement in Reserves Statement.

Sale proceeds of £10,000 and below are credited straight to the Comprehensive Income and Expenditure Statement.

### 1.17. Depreciation / Amortisation Methodology

In order to recognise the total cost of using fixed assets, the Council has a policy to depreciate assets on a straight line basis over their useful economic life, reducing the value of the asset, and charging the relevant revenue service expenditure. However, under statute, depreciation is not chargeable to the tax payer, the Council removes this charge through the Movement in Reserves Statement and charges it to the Capital Adjustment Account.

The economic lives of assets are:

- **Intangible Assets** – 5 years.
- **Property Plant and Equipment**
  - Combined Group for Flat Roof and Mechanical Engineering – 20 years
  - Land – not depreciated
  - Temporary Buildings – 15 years
  - Modular Buildings – 25 years
  - Combined group for structure, external works, pitched roof and components of less than 25% of the overall structure value – 40 years
  - Other unique features (i.e. a swimming pool) – as required
  - Fixtures and Fittings – 10 years
  - IT Hardware – 5 years
  - Vehicles – 3 to 10 years



➤ **Infrastructure Assets**

- Carriage ways – 40 years
- Footways and cycle tracks – 40 years
- Structures – 40 years
- Lighting – 25 years
- Traffic management – 25 years
- Street furniture – 25 years

➤ **Investment Property Assets** – not depreciated

➤ **Community Assets** – Community Assets are depreciated in line with the normal policy for assets of that nature (i.e. land assets are not depreciated). Under rare circumstances if it is not possible to determine a useful life (such as works of art) in those instances the asset is not depreciated.

➤ **Assets Held for Sale** – are not depreciated

The Council charges depreciation on a pro-rata basis during the year i.e. from the month of acquisition to the month of disposal.

### 1.18. Leases

In line with IFRIC 4, the Council recognises a lease to be any agreement which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

### 1.19. Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards relating to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset even if the title is not transferred. Measures to identify this are:
  - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
  - The Council recognises 'major part' to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Measures to identify this are:

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- Fair value of the leased asset is assessed by a RICS qualified valuer.
  - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
  - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
  - The Council recognises 'substantially all' to be 75% of the value of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
  - If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
  - Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
  - The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Council as to whether a lease is operating or finance.

### 1.20. Defining an Operating Lease

The Council recognises an operating lease to be a lease which is not a finance lease.

### 1.21. Lessee Accounting for a Finance Lease

Where the Council is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Council will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the property, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made.

### 1.22. Lessor Accounting for a Finance Lease

Where the Council is the lessor for a finance lease, the asset is not recognised in the asset register; however a long term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income – credited to the Comprehensive Income and Expenditure Statement as interest receivable.

### 1.23. Lessor Accounting for an Operating Lease

Where the Council is the lessor for an operating lease, it will retain the property as either an item of Property Plant and Equipment or as an Investment Property on the Balance Sheet. Any rental income is credited to the relevant service income.

### 1.24. **Service Concession Agreements (Private Finance Initiative (PFI) and other similar contracts)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. PFI and similar contracts are assessed against criteria within IFRIC 12 Service Concession Arrangements to determine whether the risks and rewards incidental to ownership lie with the Council or the contractor.

Those which lie with the contractor – payments made during the life of the contract are chargeable to revenue as incurred.

Those which lie with the Council – are recognised as an asset in the Balance Sheet for the construction costs of the asset. Once recognised this asset is treated in line with all capital assets. A corresponding long term liability is also recognised at the construction value. Payments made during the life of the contract are split into finance costs, capital costs and service costs. Determining the split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

### 1.25. **Capital Grants and Contributions**

The Council recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions and donations are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a creditor. Any grant which had met the recognition criteria but had not been received would be shown as a debtor. This is in line with the Accruals Concept Policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the Comprehensive Income and Expenditure Statement.

In order to not impact on the level of Council Tax, the Council removes the credit from the General Reserves through the Movement in Reserves Statement, and makes a credit to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

### 1.26. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred that either may be capitalised under statutory provisions or is capital in nature but does not result in the creation of a fixed asset that is owned by the Council. REFCUS is charged as expenditure to the Comprehensive Income and Expenditure Statement in the year, however is financed from existing capital resources or by borrowing. A transfer between the Capital Adjustment Account and the Movement in Reserves Statement then reverses out the impact on the general fund balance.

### 1.27. Minimum Revenue Provision (MRP)

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.

The Council will provide for 2.5% of debt outstanding on all debt as at 31 March 2008. On any new debt since this date the Council will provide 2.5% of the balance on all borrowing, unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of five years is used.

As a result of the changes introduced by International Financial Reporting Standards, some PFI and leased assets now classified as finance leases are being brought onto the Balance Sheet. As a result, the Council has adopted the policy of charging MRP for these assets at the value of the associated loan liability repayment each year, thus mitigating the impact to the General Reserve.

### 1.28. Capital Reserves

The Council holds Capital Reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted through the Movement in Reserves Statement.

## REVENUE ACCOUNTING

### 1.29. Recognition of Revenue Expenditure

The Council recognises revenue expenditure as expenditure which is not capital.

### 1.30. Employee Costs

In accordance with IAS 19, the Council accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

### Short Term Employee Benefits

- **Salaries and Wages** – The total salary and wages earned by employees during the financial year are charged to the Comprehensive Income and Expenditure Statement. Where the amount accrued exceeds the amount paid at the 31 March, a creditor will be reflected in the accounts.
- **Leave Owed, Accumulating Absences** – The Council allows employees to earn time off in one period with the resulting cost to the Council in a later period when that time is either taken off or paid to the employee. Examples of this accumulating leave are annual leave, flexi-time and time off in lieu.

If an employee were to leave the Council, cash payment would be made for entitlements such as annual leave; this leave is termed vesting. Where no cash payment would be due, the leave is termed non-vesting.

In order to correctly reflect the cost of time owed to staff, a charge has been made to the Comprehensive Income and Expenditure Statement and a creditor accrual has been reflected in the Balance Sheet. This charge is reflective of the estimated time cost value of all accumulating leave owed to employees. Vesting leave will be charged in full; however non-vesting leave has been adjusted to reflect the turnover of staff.

- **Easter Bank Holiday** – When Good Friday and/or Easter Monday fall in April, the preceding financial year only accounts for 6 or 7 bank holidays rather than the statutory 8. When this occurs a charge is made to the Comprehensive Income and Expenditure Statement and a creditor accrual is reflected in the Balance Sheet.
- **Non-accumulating Absences** – are periods of leave that cannot be carried forward for use in future periods. Examples include Maternity Leave, Special Leave, Sick Leave and Jury Service. The Council does not recognise non-accumulating compensated absences until the time that the absence occurs.
- **Non-monetary Benefits** – Where employees have non-monetary benefits (e.g. retirement benefits or life insurance), the associated cost of providing that benefit has been charged to the Comprehensive Income and Expenditure Statement.

### Termination Benefits

- **Redundancy Costs** – The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Council recognises the costs associated with this in the service revenue expenditure and creates a creditor in the Balance Sheet. Where the payable amount is due in more than 12 months from the year end date, the costs are discounted at the rate determined by reference to market yields. In the case of an offer to encourage voluntary redundancy, the Council has recognised the estimated cost based on the expected number of employees taking the offer.

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The Council will disclose details of exit packages within the notes to the accounts.

### **Pensions Costs**

- **Teachers' Pension Scheme** – is a defined benefit scheme administered by the Department for Education. The assets and liabilities of the Teachers' Pension Scheme are not attributable to the Council, therefore the Council accounts for the scheme as if it were a defined contribution scheme. This means that the Children and Education Services line in the Comprehensive Income and Expenditure Statement will only include the Council's contributions payable to the scheme.
- **Local Government Pension Scheme** – is a defined benefit scheme. The liabilities of the 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 such as mortality rates and employee turnover rates, and projections of earnings for current employees.

Pension liabilities are measured using the projected unit method, discounted using the rate on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of "spot yields" on AA rated corporate bonds.

The change in the net pension liability is analysed into seven components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement within the relevant service area dependant on staff employed at the Council. The current service cost includes an allowance for administration expenses
- 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Gains/Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Interest Income on Plan Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

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- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Movement in Reserves Statement.
- Employer Contributions – cash paid by the Council to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserve to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments** – the Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies which are applied to the Local Government Pension Scheme.

### 1.31. Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Council is the lessee are charged immediately to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis.

### 1.32. Revenue Grants and Contributions

Grants, contributions and donations (referred to as grants for the purposes of this policy) are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (income in advance). Any grant which had met the recognition criteria but had not been received would be shown as a debtor.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services. Those which are for general purpose are shown within Other Operating (Income) and Expenditure in the Comprehensive Expenditure and Income Statement.

### 1.33. Income from Service Recipients

Income from service recipients is defined as consideration that a party, which has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activities. Such a contract may be in writing, orally or in accordance with customary business practices. These may include:

- Charges for service provided by the Council.
- Sale of goods provided by the Council.
- Fees and charges for services under statutory requirements where there is an exchange of assets or services, such as the issuing of a licence or processing of an application.

In such cases the Council recognises income when it has satisfied the performance obligation by transferring the promised goods or services to the service recipient. The point of transfer is when the service recipient takes control of the goods or benefits from the service.

The Council deems performance obligations to be satisfied over time, rather than at a point in time if any of the following criteria are met:

- The service recipient simultaneously receives and consumes the benefits of a service.
- The Council's performance enhances an asset that the service recipient controls.
- The Council has an enforceable right to payment for performance completed to date and that performance does not create an asset for which it has an alternative use.

Such income is recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services.

### 1.34. Provisions

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

Provisions are charged to the appropriate service revenue account in the year that the Council recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision. Where payment is not expected for more than 365 days after the balance sheet date, the provision has been discounted using the rate of a high quality corporate bond.

Estimated settlements are reviewed at the end of each financial year and adjustments with the Comprehensive Income and Expenditure Statement are made as required.

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 if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council does not hold any general provisions.

### 1.35. Revenue Reserves

The Council holds usable revenue reserves for the purpose of funding future expenditure. The General Reserve represents the balance of reserves to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Five Year Financial Plan. Earmarked Reserves represent balances where approval has been received to use the reserve for a specific purpose.



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Unusable revenue reserves represent timing differences such as those associated with the recognition of retirement benefits, Council tax income and financial instruments.

Movement in reserves are accounted through the Movement in Reserves Statement.

The Council publishes a separate Reserves Policy document, which is reviewed by Cabinet at least annually.

### **1.36. Research Costs**

Research costs should be treated as revenue expenditure at the point in which they are incurred, and charged to the Comprehensive Income and Expenditure Statement.

### **1.37. Members' Allowances**

The Council in exercise of the powers and duties conferred by the Local Authorities (Members' Allowances) (England) Regulations 2003, has established a Members Allowance Scheme, outlining the allowances payable to Members of the Council.

Members are reminded of the need to keep detailed supporting information, such as a diary, about every attendance for which they claim. This information should be available for scrutiny by the Council's Auditors or other relevant persons as and when required. The scheme is updated annually, and full details are available on the Council's website.

The total amount paid in terms of Members Allowances is disclosed in the notes to the accounts.

### **1.38. Council Tax and Business Rates Recognition**

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement includes the Council's share of accrued income recognised by billing authorities in the production of the Collection Fund Statements.

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

### **1.39. Inventories and Work in Progress**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventory is recorded in terms of average cost, with the exception of fleet parts where the cost is recorded on a first in, first out basis.

Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

### **1.40. Loss Allowance for Expected Credit Losses**

The Council maintains a loss allowance for any amounts it is due to receive from its debtors or investments which might become uncollectable.

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At each Balance Sheet date the Council makes a two-stage assessment as to whether impairment losses need to be recognised:

- Firstly, whether there is evidence of impairment for individual debtor or investment that are significant, and
- Secondly, whether there is evidence of impairment for groups of similar debtors or investments.

Assessment is made based on the risk of a debtor's or an investment issuer's ability to pay future cash flows due under the contractual terms. This risk is estimated where possible based on historical loss experience, the debtor's or investment issuer's credit rating and other impacting factors including forward-looking information.

The loss allowance for an investment is initially measured at an amount equal to the portion of the lifetime credit losses which might be expected from a default event within 12 months of the balance sheet date. If the Council considers that the risk of default on an investment has increased significantly since the investment was initially recognised it will measure the loss allowance at an amount equal to the total lifetime credit losses expected from a default event.

The Council adopts the simplified approach of measuring the loss allowance for debtors at an amount equal to the total lifetime credit losses expected from a default event, from the time a debtor is initially recognised.

No loss allowance is recognised for expected credit losses where the debtor or investment issuer is central government or another local authority for which relevant statutory provisions prevent default.

Loss allowances are offset against the debtor or investment amount shown as an asset. The movement in the allowance is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

## TREASURY MANAGEMENT

### 1.41. Definition of Treasury Management Activities

The Council has adopted the following definition of Treasury Management activities:

The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

### **1.42. 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 highly liquid investments that mature in no more than 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 the value.

### **1.43. Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31 March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in 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 modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Reserves to be spread over future years.

The Council has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **1.44. Financial Assets**

Financial assets are classified into three types according to the Council's business model for managing those assets and the characteristics of the cash flows of the asset:

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**1) Financial Assets Measured at Amortised Cost** – assets where it is the Council's intention to hold the asset to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31 March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations at less than market rates (soft loans).

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

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

Investments are represented on the balance sheet depending on their remaining life at the Balance Sheet date:

- Investments entered into for 90 days or less - debited to the cash balance as cash equivalents and represented within the cash flow statement.
- Investments entered into for more than 90, with less than 365 days until maturity – debited to current asset investments
- Investments due to expire in more than 365 days – debited to non-current asset investments

**2) Financial Assets Measured at Fair Value Through Other Comprehensive Income** – assets where it is the Council’s intention to hold the asset both to sell the asset and to collect the contractual cash flows and those cash flows consist solely of payments of principal and interest which arise on specified dates, or assets which are equity instruments which it is the Council’s intention to hold for more than 12 months and which the Council has irrevocably elected to present changes to their fair value in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council’s right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in the Financial Instrument Revaluation Reserve and the gain/loss is recognised in Other Comprehensive Income and Expenditure and the Movement in Reserves Statement. Impairment of these assets, due to expected credit losses, is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement and credited to a loss allowance account which reduces the carrying value of the financial asset. Any gains and losses that arise on de-recognition of the asset are credited/debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**3) Financial Assets Measured at Fair Value Through Profit or Loss** – assets which are neither measured at amortised cost nor where changes to fair value are presented in Other Comprehensive Income and Expenditure

These assets are initially measured and carried at fair value. Where the asset has determinable payments of dividends or interest, these are credited to the Comprehensive Income and Expenditure Statement. Interest receivable is based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Dividends are recognised when the Council’s right to receive the payment has been established and the amount can be measured reliably.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

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Changes in fair value are balanced by an entry in Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

### 1.45. **Interests in Companies and Other Entities**

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, it is required to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

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## GLOSSARY OF TERMS

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### **AA rated corporate bonds**

Financial indicator of very good quality, low risk debt securities. These are assigned by credit rating agencies such as Moody's, Standard & Poor's and Fitch Ratings to have letter designations (such as AAA, B, CC).

### **Account**

A group of expenditure items or balances with similar qualities will be summated into an 'account' balance such as an individual reserve account, or revenue expenditure account.

### **Accounting Policies**

The Councils document outlining how it will account for all of its operations.

### **Accounting Principles**

Commonly accepted set of concepts or assumptions that have to be followed when producing financial statements.

### **Accounting Standard**

Statutory guidelines which explain how to treat financial activities in the financial statements. See International Financial Reporting Standards (IFRS).

### **Accrual**

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

### **Accruals Concept**

Requires operations of the Council to be reported in the financial statements at the point which they took place, rather than when the cash was paid or received.

### **Accumulating Absences**

Types of leave which employees are entitled to each year; which if untaken in one financial year will be added to the entitlement for the following year.

### **Acquired / Acquisition**

Operations or assets which have become the responsibility of the Council, such as through purchase, a Government reorganisation, donation or merger.

### **Actuarial**

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

### **Actuaries**

An actuary is a professional who deals with the financial impact of risk and uncertainty. Actuaries provide assessments of financial systems and balances.

### **Amortisation**

The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed for example wear and tear.

### **Amortised Cost – Financial Instruments**

The valuation of a financial asset or liability based on repayments of principal, interest accrued at a constant rate and the difference between the initial amount recognised and the maturity amount. For financial assets this is adjusted by any loss allowance.

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## GLOSSARY OF TERMS

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### **Amortised Cost – Other Non-Current Assets**

The cost of intangible assets reduced by the amount of amortisation charged to date.

### **Annual Leave**

Yearly entitlement of paid time off for Council staff.

### **Asset Register**

Listing of all property (for example land, buildings, furniture, infrastructure, software) owned by the Council. The register holds all financial information relating to the asset.

### **Assets**

Right or other access to future economic benefits.

### **Assets Held For Sale**

Non-Current Assets which meet the relevant criteria to be classified as held for sale.

### **Assets Under Construction**

Assets which are in the process of being constructed and are not yet operational.

### **Associates**

An entity (including partnerships) which is not a subsidiary or joint venture, where the Council has significant influence.

### **Authorised For Issue**

The date which the financial statements have been certified by External Audit and signed the relevant Officers and Members of the Council.

### **Balance Sheet**

Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

### **Balance Sheet Date**

The date at which the Council reports its financial statements. For Derbyshire County Council, this date is the 31 March.

### **Bias**

Influence or direction.

### **Billing Authorities**

Councils who are responsible for issuing Council Tax Invoices and collection of income from local residents. The relevant share of that income is then transferred to the Council.

### **Borrowing Requirement**

The amount required to be loaned from Money Markets or other financial institutions or Councils in order to support capital expenditure.

### **Business Rates**

Local property taxation issued to businesses, similar to Council Tax on residential properties. Also known as National Non Domestic Rates (NNDR).

### **Cabinet**

Sub-committee of elected Councillors representing the functions and portfolios of the Council.

### **Capital**

Assets which have a long term value (more than one year) to the Council such as Buildings.



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## GLOSSARY OF TERMS

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### **Capital Adjustment Account**

Capital reserve largely comprising of resource applied to capital financing and is not available to the Council to support new investment.

### **Capital Appreciation**

Increase in the worth of assets over time due to changes in market conditions or enhancements to the asset.

### **Capital Costs**

Reflects the element of annual payment for PFI or Leased assets which is in relation to the reduction in the long term debt associated with the asset.

### **Capital Expenditure**

Expenditure on the acquisition of, or enhancement to fixed assets. This cannot be merely to maintain the value of an existing asset.

### **Capital Financing Requirement**

The Capital Financing Requirement measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the underlying need to borrow for a capital purpose.

### **Capital Grant**

Grant which is intended to fund capital expenditure.

### **Capital Grants Unapplied Reserve**

Balance of capital grants received which is available to finance future capital expenditure.

### **Capital Receipts**

Income received from the sale or utilisation of property, such as sale proceeds or rental income on finance leases.

### **Capital Reserves**

Reserve balances held for capital purposes.

### **Carrying Value**

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

### **Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **Cash Flows**

Monies received or paid either as cash or bank transactions. Cash inflow denotes money received, cash outflow denotes money paid.

### **Chartered Institute of Public Finance And Accountancy (CIPFA)**

The main authority on accountancy and financial management for the public services in the UK.

### **CIPFA Code**

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts

### **Collection Fund**

The fund maintained by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

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## GLOSSARY OF TERMS

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### **Collection Fund Adjustment Account**

Revenue reserve to represent the difference between the income received by a local authority in Council Tax and the amount attributable to them.

### **Collection Fund Statements**

The statutory financial statements produced as part of the Statement of Accounts by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

### **Community Assets**

Assets which are held for the benefit of the community where there is no determinable useful life.

### **Comparative Year**

The previous year to that which is being reported.

### **Component Accounting**

The concept that individual parts of an asset (such as land, building, roof, sheds) should be treated differently in the financial statements dependent on the expected useful life or value of those individual parts. The concept expects that some parts of an asset require repair or replacement sooner than others.

### **Comprehensive Income And Expenditure Statement**

Financial Statement detailing the revenue operations of the Council. This represents the private sector equivalent of a Profit and Loss Statement.

### **Condition**

A requirement which must be met for an asset or liability to be recognised by the Council. For example, a donation which can only be spent within a specific service area such as museums or to support children.

### **Contingent Assets And Liabilities**

A possible asset or obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

### **Contract Asset**

The Council's right to receive consideration in exchange for goods or services that it has transferred to a service recipient where that right is conditional on something other than the passage of time (such as the Council's future performance).

### **Contract Liability**

The Council's obligation to deliver goods or services to a service recipient for which it has already received consideration.

### **Contributions**

Income received by the council which is not a grant, donation, fine, or in direct exchange for goods or services.

### **Core Service Areas**

The services provided by the Council externally, such as education, highway maintenance and adult social care.

### **Corporate And Democratic Core**

Costs associated with maintaining a democratic representation and management within the Council. For example Members Allowances and administrative costs associated with supporting elected Members.

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## GLOSSARY OF TERMS

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### **Council**

The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

### **Council Tax**

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

### **Credit**

A credit represents income to a revenue account.

### **Credit Loss**

The difference between contractual amounts due to the Council and the amounts it expects to receive.

### **Creditor**

Represents the amount that the Council owes other parties.

### **Current Service Cost**

The current service cost is the increase in the value of the pension schemes future pension liabilities arising from the employees on-going membership of the pension scheme.

### **Current Value**

IFRS13 introduces the concept of current value and defines it as the measurements that reflect the economic environment prevailing for a service or function the asset is supporting at the reporting date. Current value can be fair value, existing use value, existing use value – Social Housing and depreciable replacement cost.

### **Current Year Entry**

A transaction which has occurred in the financial year being reported.

### **Curtailments**

Materially reducing the expected years of future services of current employees or eliminating for a significant number of employees the accrual of defined benefits for some or all of their future services.

### **Debit**

A debit represents expenditure against a revenue account.

### **Debt Outstanding**

The remaining principal balance owed on a loans or investments.

### **Debtors**

Represents the amounts owed to the Council.

### **Equity Instrument**

A contract which evidences a residual interest in the assets of another entity after deducting all of its liabilities. Examples include shares and derivatives that give the Council the right to receive a fixed number of shares for a fixed amount of cash (or another financial asset) in an exchange which is expected to be favourable to the Council.

### **Defined Benefit Scheme**

Also known as a Final Salary Scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory members' contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

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## GLOSSARY OF TERMS

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### **Defined Contribution Scheme**

Also known as a Money Purchase Scheme. Pension scheme arrangement where the employer's liability is restricted to the amount that they contribute. Benefits payable to the members depend on the performance of the invested contributions of the members and the employer, the level of contributions invested, the charges deducted by the product provider and the annuity rate at retirement.

### **De-Minimis**

Minimum level required. For example expenditure below the capital de-minimis is below the minimum level required to be treated as a capital expenditure item.

### **Department For Education**

Central Government Department, responsible for education and children's services in England.

### **Depreciable Replacement Cost (DRC)**

DRC is a method of valuation that provides the current cost of replacing an asset with its Modern Equivalent Asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

### **Depreciation**

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed by, for example, wear and tear.

### **Derecognition**

The process whereby a component is replaced to avoid double counting when no future economic benefits or service potential are expected from its use or upon disposal.

### **Discount**

An allowance received through the early repayment of debt.

### **Discounted**

Reflecting the equivalent value today of a payment or income made or due in the past or future.

### **Discounted Cash Flow**

A method of analysing future cash flows, by removing the impact time has on the value of money, and producing an equivalent current value (present value).

### **Discretionary Benefits**

Benefits given to employees which are not statutorily obliged.

### **Disposal**

Operations or assets which have left the responsibility of the Council, such as through sale, a Government reorganisation, donation or merger

### **Donated Assets**

Assets which have been acquired at below market cost.

### **Dowry**

One off payment made as donation, contribution or pre-payment of an obligation.

### **Earmarked Reserves**

Reserve balances which have been set aside for future spending in a specific area.

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## GLOSSARY OF TERMS

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### **Economic Life**

The number of years the Council is expected to receive economic benefits to deliver services.

### **Effective Rate**

The interest rate embedded within a contract or lease, allowing for regular annual payments and the time value of money.

### **Employee**

A person who holds an office within the Council, but does not include a person who is an elected Councillor.

### **Employee Benefits**

Monetary or other awards to employees of the Council in exchange for services provided. For example, pay, holidays, and pensions.

### **Employee Costs**

The costs directly associated with employees, including but not exhaustively salaries and wages, National Insurance contributions and pension's costs.

### **Employer Contributions**

The payments made to an employee's pension scheme by the Council.

### **Enhancement Expenditure**

Expenditure which increases the value of an asset.

### **Entity**

Something with a legal status such as the Council, a company, or an individual.

### **Events After The Balance Sheet Date**

An event which occurs between 31 March and the date that the accounts are signed which would alter the conclusion reached by any reader of the accounts.

### **Exceptional Items**

Material items that result from the ordinary activities of the Council, but to a value so significantly abnormal that is not expected to recur at that level.

### **Existing Use Value (EUUV)**

The value of an asset based on what it is currently being used for. For example, two identical buildings in construction and design may have different values where one is used as a school and another is used as offices.

### **Exit Packages**

The payment made to an employee upon leaving the Council.

### **Expenditure**

Payments made of goods or services.

### **Fair Value**

The income that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### **Fair Value Through Other Comprehensive Income (FVOCI)**

Measurement of a financial asset at fair value where any gain or loss on revaluation is recognised in other comprehensive income and expenditure and taken to the Financial Instrument Revaluation Reserve.

### **Finance Income**

Interest receipts.

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## GLOSSARY OF TERMS

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### **Finance Lease**

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

### **Financial Assets**

A type of financial instrument which gives the Council the right to receive future economic benefits.

### **Financial Instruments**

An umbrella term to describe all financial services and trading with which the Council may operate, including loans, borrowings, bank accounts and debtors.

### **Financial Instruments Adjustment Account**

Revenue reserve which records the timing differences between the rate at which gains and losses are recognised and the rate at which debits and credits are required to be made against Council tax.

### **Financial Instruments Revaluation Reserve**

This reserve contains the cumulative gains and losses relating to the valuation of financial assets held at fair value through other comprehensive income. When the underlying financial assets are de-recognised any gains or losses held in this reserve are credited or expensed to the Surplus or Deficit on Provision of Services.

### **Financial Liabilities**

A type of financial instrument that confers an obligation on the Council to transfer economic benefits under its control.

### **Financial Statements**

Published document, consisting of the Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and Notes to the Accounts.

### **Financial Year**

The current year being reported upon running from 1 April to 31 March.

### **Five Year Financial Plan**

The Councils Medium Term Financial Plan, setting out the financial projection for the Council over the coming 5 years.

### **Fixed Assets**

See Non-Current Assets.

### **Flexi-Time**

Time owed to employees who have worked above the contracted hours.

### **Gain**

Where income exceeds expenditure.

### **General Provisions**

Money set aside in the Balance Sheet where its future use is not known.

### **General Reserve**

The reserve held by the County Council for general purposes, i.e. against which there are no specific commitments.

### **General Revenue Government Grants**

Grant income received from Central Government (or Government Department) which is not restricted in its use.

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## GLOSSARY OF TERMS

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### **Going Concern**

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

### **Goods Or Services**

Supplies required by the Council to perform its operations. Examples of goods; paper, bricks or light bulbs, and services; electricity, petrol or agency staff.

### **Grants**

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

### **Group Accounts**

Where a Council has a controlling interest in another organisation, group accounts have to be produced. These accounts report the financial position of all of the group entities.

### **Hire Purchase**

A contract for the provision of an asset which becomes the property of the lessee at the end of the contract period.

### **Historic Cost**

The cash paid in obtaining an asset in its current form. Inclusive of purchase price and enhancement expenditure.

### **HM Revenue & Customs**

Her Majesty's Revenue and Customs is a non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of state support, and the administration of other regulatory regimes including the national minimum wage.

### **HM Treasury**

Her Majesty's Treasury, sometimes referred to as the Exchequer, or more informally the Treasury, is the United Kingdom government department responsible for developing and executing the British government's public finance policy and economic policy.

### **IFRIC**

International Financial Reporting Interpretation Committee.

### **Immateriality**

Immateriality is an expression of the relative insignificance or unimportance of a particular matter in the context of the financial statements as a whole.

### **Impairment**

Impairment is the amount by which the carrying amount of an asset exceeds its recoverable amount.

### **Inception**

The point in time which something began such as a project, contract or lease.

### **Income**

Cash flows into the Council.

### **Income From Service Recipients**

Consideration a party, that has contracted with the Council, has given in exchange for goods or services that are the output of the Council's normal operating activities. Such a contract may be in writing, orally or in accordance with customary business practices.

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## GLOSSARY OF TERMS

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### **Income In Advance**

Income received before the point at which an obligation to receive it has occurred.

### **Infrastructure**

A network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created i.e. there is no prospect of sale or alternative use. The inalienable components include carriageways, footways, cycle tracks, structures, street furniture, street lighting, traffic management systems and land.

### **Intangible Asset**

Non-current assets which do not have physical form such as software.

### **Interest Accrued**

Accrued interest is the interest on a bond or loan that has accumulated since the principal investment or since the previous coupon payment if there has been one already.

### **Interest Payable**

The amount of interest due for payment within a financial year.

### **Interest Rate**

The rate at which interest is calculated on a loan or investment.

### **Interest Receivable**

The amount of interest due for receipt within a financial year.

### **International Accounting Standards (IAS)**

Regulations outlining the method of accounting for activities, IAS's are currently being replaced with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board.

### **International Financial Reporting Standards (IFRS)**

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

### **International Public Sector Accounting Standards (IPSAS)**

Public Sector regulations outlining the method of accounting for activities.

### **Inventories**

Goods purchased in advance of their use which are held in store.

### **Investment Property**

Assets held solely for the purposes of rental generation or for increasing the value pre-sale (capital appreciation) or both.

### **Joint Venture**

An organisation which the Council has partial control and ownership, but decisions require the consent of all participants.

### **Lease**

Financial contract for the continuing use of an asset.

### **Lease Interest**

The interest rate inherent within a lease allowing for regular rental payments and an adjustment for the time value of money.

### **Lease Payments**

Regular payment made in exchange for the use of an asset.



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## GLOSSARY OF TERMS

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### **Leases**

A method of funding expenditure by payment over a defined period of time.

### **Lessee**

The person or organisation that is using or occupying an asset under lease (tenant).

### **Lessor**

The person or organisation that owns an asset under lease (landlord).

### **Liabilities**

An obligation to transfer economic benefits. Current liabilities are payable within one year.

### **Loans And Receivables**

Financial assets which are not quoted in an active market and have either a fixed or determinable payment.

### **Loan Modification**

A change to the terms of an existing loan. Changes may include a reduction in the interest rate, an extension of the loan term, or a reduction in the principal balance.

### **Loan Modification Gain/Loss**

An amount arising from adjusting the carrying value of a loan to reflect the cash flows under the renegotiated terms of the loan, but accruing interest at the rate specified in the original loan terms.

### **Long Term Debtor**

Income due in more than 365 days of the balance sheet date.

### **Long Term Liability**

Payment due in more than 365 days of the balance sheet date.

### **Loss**

Where expenditure exceeds income.

### **Loss Allowance**

A reduction to the value of financial assets for the expected credit losses relating to those assets.

### **Materiality / Material**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

### **Maternity Leave**

Statutory time off due to pregnant women and new mothers.

### **Members**

Elected Councillors responsible for the democratic leadership of the Council.

### **Members Allowances**

Allowances paid to members in association with their roles and responsibilities.

### **Minimum Lease Payments**

The minimum which will be paid or received over the life of a lease agreement.

### **Minimum Revenue Provision (MRP)**

A prudent amount of revenue set aside to contribute towards capital expenditure which has been financed by borrowing or credit arrangements.

### **Misstatement**

An error whereby something was included in the accounts wrongly.

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## GLOSSARY OF TERMS

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### **Modern Equivalent Asset (MEA)**

The MEA should give the same service and performance as the existing asset, but should use modern materials and technology.

### **Movement In Reserves Statement (MiRS)**

The statement detailing the movement in the reserves of the Council.

### **Net Cost Of Services**

The direct cost of delivering the Councils services after allowing for specific income received by those services.

### **Net Operating Expenditure**

The cost of operational items which are not direct services, such as disposing of the Councils assets, after allowing for specific income received.

### **Net Realisable Value**

The estimated selling price of an asset in the ordinary course of operations less any completion costs and costs to make the sale, exchange or distribution.

### **Non Distributed Costs**

The value of revenue operating expenditure that is not able to be apportioned to one of the authorities core service areas.

### **Non-Accumulating Absences**

Types of leave an employee may take in a financial year, which if are not taken do not get added to the following year's entitlement. For example Sick Leave.

### **Non-Current Assets**

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

### **Non-Vesting**

An obligation which cannot be settled by a monetary payment.

### **Notes To The Accounts**

A set of supplementary comments, tables and information which further explains the main Financial Statements.

### **Obligation**

The requirement to transfer economic benefits.

### **Operating Lease**

A lease where an asset is used only for a small proportion of its economic life.

### **Operational**

The normal activities of the Council.

### **Past Service Cost**

Past service cost is the change in the present value of defined benefit obligations caused by employee service in prior periods.

### **Payment In Advance**

A payment made which is before the point of any obligation.

### **Pension Liabilities**

The cost, calculated by an Actuary, of providing the current members of a pension scheme with retirement benefits as set out in the pension scheme rules.

### **Pensions Costs**

The benefits paid by the Council which are accrued during the period of employment and paid to ex-employees after retirement.

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## GLOSSARY OF TERMS

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### **PFI**

See Private Finance Initiative.

### **PFI Credits**

The financial support provided to Local Authorities to part fund PFI capital projects.

### **Premium**

A payment made in association with the early repayment of debt.

### **Pre-Payments**

See payment in advance.

### **Present Value**

See Discounted.

### **Previous Year Adjustments**

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

### **Principal**

The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

### **Private Finance Initiative (PFI)**

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

### **Projected Unit Method**

This is a common actuarial funding method to value pension scheme liabilities.

### **Property, Plant And Equipment Assets (PPE)**

Assets with a long Term value and physical substance such as buildings, land, IT equipment or vehicles.

### **Provisions**

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

### **Prudent**

A cautious approach to present the Financial Statements without significant risk of failure to achieve the assets presented.

### **Quoted Market Prices**

A method of determining the fair value of financial assets via prices quoted on an active market.

### **Recognition**

The process upon which assets are deemed to belong to the Council either by purchase, construction or other form of acquisition.

### **Receivable**

The Council's unconditional right to receive consideration in exchange for goods or services that it has transferred to a service recipient.

### **Residual**

The remaining value in an asset at the end of a contract or lease.

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## GLOSSARY OF TERMS

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### **Retirement Benefits**

Remuneration package received by employees after their retirement from the Council.

### **Retrospectively**

Changes made to previous years accounts to alter the treatment which has previously been reported.

### **Revaluation Gain**

The increase to the fair value of an asset following a valuation.

### **Revaluation Reserve**

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

### **Revenue**

The cost associated with providing Council services.

### **Revenue Expenditure**

Expenditure which is not capital.

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

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset.

### **Revenue Grant**

Grant which is not capital.

### **Risk**

The chance of an asset not coming to fruition or a liability being greater than anticipated.

### **Royal Institute Or Chartered Surveyors (RICS)**

An international organisation who represent everything professional and ethical in land, property and construction.

### **Salaries And Wages**

Payments made to employees in exchange for service worked at the Council.

### **Service Concession Arrangements**

Arrangements which involve the supply and maintenance of assets and service delivery.

### **Service Costs**

Reflects the element of annual payment for PFI or Leased assets which is in relation to services provided within the contract.

### **Service Expenditure Reporting Code of Practice (SERCOP)**

CIPFA guidelines on reporting revenue expenditure.

### **Service Level Agreements**

Contract of service.

### **Short Term**

Less than 365 days from the balance sheet date.

### **Short Term Benefits**

Employee benefits earned and consumed during employment.

### **Significant**

A measure of materiality where the value is deemed to be almost all of the total value in question.

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## GLOSSARY OF TERMS

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**Soft Loans**

Low interest rate loans.

**Spot Yields**

A calculation of the projected return on bonds if held to maturity.

**Staff**

See employee.

**Statute**

Set out in legislation.

**Straight Line Basis**

The method of calculation of depreciation to allocate an equal amount of depreciation each year over an asset's useful life.

**Support Services**

Indirect costs of providing Council services including HR, Finance, Legal and Property Maintenance.

**Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

**Surplus Assets**

Assets which are no longer in operation.

**Tangible**

Physical, can be touched.

**Tenant**

The person or organisation that is occupying an asset under lease.

**Termination Benefits**

Employee benefits paid upon termination of employment such as redundancy.

**The Code**

CIPFA guidelines on accounting within Local Government.

**Transactions**

Individual items of income or expenditure.

**Treasury Management**

Utilisation of cash flows through investments and loans.

**Unidentified Income**

Income received by the Council where the reason for the income is unknown.

**Unusable**

Balances which are not available to support future spending.

**Usable**

Balances which are available to support future spending.

**Useful Life**

The period with which an asset is expected to be useful to the Council in its current state.

**Value Added Tax**

National taxation charged on goods and services.

**Vesting**

Obligation due which can be paid in cash.

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## GLOSSARY OF TERMS

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### **Work In Progress**

The fair value of incomplete contracts for goods and services which are to be charged to external customers.

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## CONTACT INFORMATION

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# Annual Governance Statement 2018-19



<b>History</b>			
<b>Version</b>	<b>Date</b>	<b>Detail</b>	<b>Author</b>
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## Introduction and the Purpose of the Governance Framework

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### Defining Corporate Governance

Corporate governance includes the systems, processes and values by which councils operate and through which they engage with, and are held accountable to, their communities and stakeholders.

Good corporate governance underpins credibility and confidence in public services. Derbyshire County Council is committed to effective corporate governance and has undertaken a self-assessment against the Framework issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled "Delivering Good Governance in Local Government (2016)"

The Framework defines the seven core principles, each supported by sub-principles which should underpin the governance framework of the Council. Acting in the public interest requires a commitment to and effective arrangements for:-

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Council's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management;
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

### The Council's Structure

The Council is comprised of 64 Elected Members who are democratically accountable to residents of their electoral division. Members follow a Code of Conduct to ensure high standards in the way they undertake their duties. The Cabinet consists of the Leader of the Council and six Members. The Cabinet is responsible for guiding the Council in the formulation of its corporate plan of objectives and key priorities. Within the policy framework, budgets and major plans approved by the full Council, the Cabinet has executive responsibility for the implementation of the Council's key goals and objectives. The Standards Committee promotes and maintains high standards, assists Members in observing the Code of Conduct and advises the Council on matters relating to the Code. The Council also operates four Improvement and Scrutiny Committees which support the work of the Cabinet and the Council as a whole. These allow citizens to have a greater say in Council matters by holding inquiries in public into matters of local concern. These lead to reports and recommendations which advise the Cabinet and the Council as a whole on its policies, budget and service delivery, and other public bodies. The

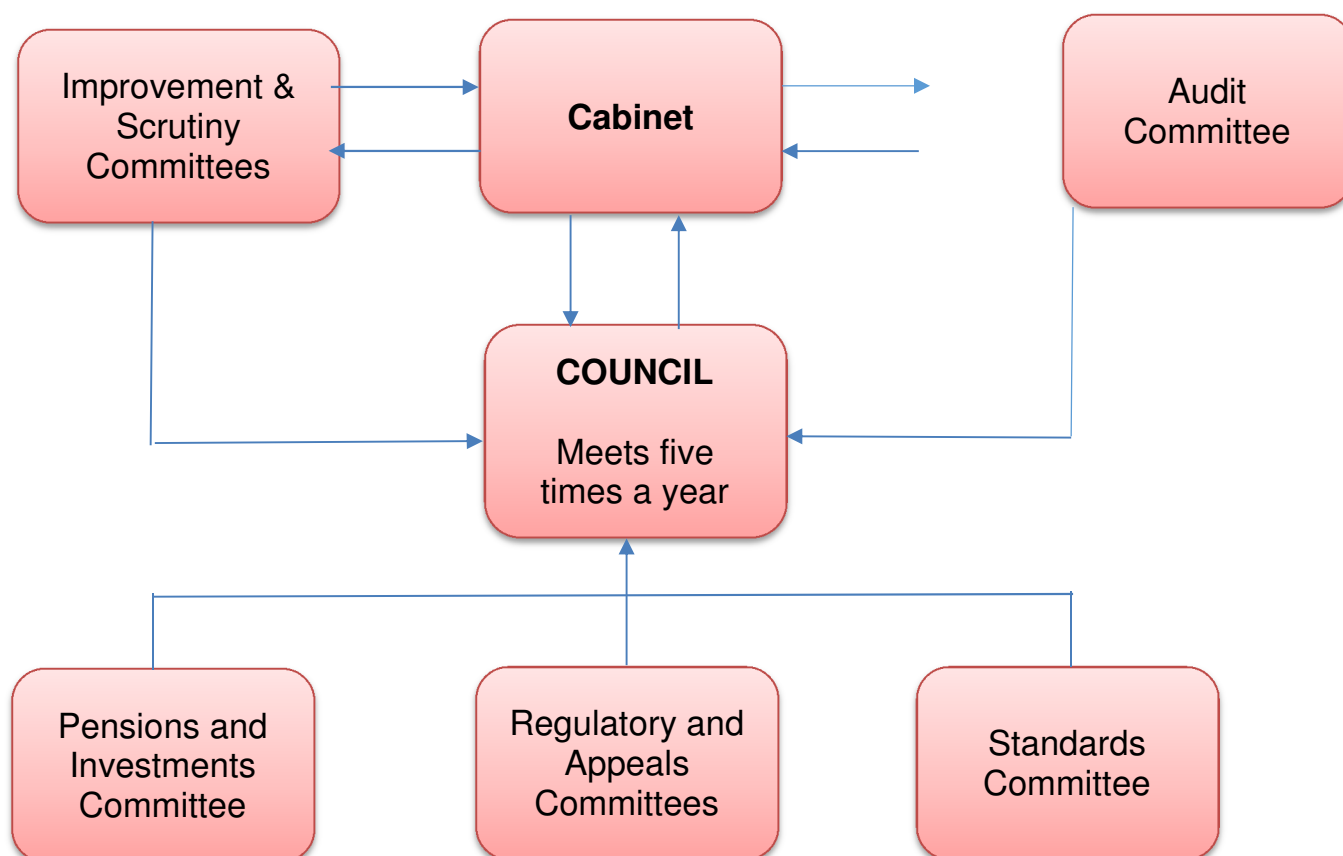
## APPENDIX ONE

Improvement and Scrutiny Committees also monitor the decisions of the Cabinet. They can 'call-in' a decision which has been made by the Executive but not yet implemented.

All Members meet together as the Council; meetings are generally open for the public to attend except where confidential matters are being discussed. The full Council decides the overall policy framework and sets the budget each year.

The Audit Committee independently contributes to the Council's process of ensuring internal control systems are maintained and in doing so is responsible for approving and monitoring progress of the Annual Audit Plan. In addition, it considers matters referred to the Committee by the Council's external auditor, approves the Annual Statement of Accounts and the Annual Governance Statement.

The Council's structure in 2018/19, the year to which this Statement relates to is documented below:-



**Derbyshire County Council's Governance Framework**

The governance framework comprises the systems, processes and values by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at the County Council for the year ended 31 March 2019 and substantially up to the date of the Statement of Accounts being certified by the Director of Finance & ICT.

Events of note are that during the 2018-19 financial year the Council undertook significant reviews of its Constitution including Financial Regulations and Standing Orders relating to Contracts. As a result Financial Regulations and Standing Orders relating to Contracts were amended at Full Council in February 2019 with an agreed implementation date of 1 April 2019. The remainder of the Constitution was significantly amended at Full Council on the 15 May 2019 and became operational from 27 May 2019. These updates significantly strengthen the overall robustness and integrity of the governance framework.

## Scope of Responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has developed an approach to Corporate Governance to ensure that it is consistent with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and demonstrates its commitment to corporate governance as “good corporate governance underpins credibility and confidence in our public services”.

This Statement explains how the Council demonstrates compliance with the Framework and also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

As part of this process, an assessment has been made of the Council’s performance against each of the seven core principles using the following criteria:-

Category	Definition
Good	The governance framework is effective and fit for purpose, although some minor weaknesses and improvements may have been identified.
Adequate	Whilst the governance arrangements are generally effective, there are gaps within the framework which need to be addressed. Should these issues remain unaddressed, there is an increased risk that the Council may be exposed to reputational risk.
Inadequate	Significant weaknesses have been identified in the governance arrangements which expose the Council to reputational risk.
Ineffective	The governance arrangements are considered to be deficient as weaknesses have been identified in a number of key areas rendering the overall framework ineffective and leaving the Council open to a high risk of error/abuse and significant reputational risk/damage.

## The Effectiveness of the Council’s Governance Arrangements

The Annual Governance Statement summarises the findings of the review of the Council’s existing governance arrangements.

The review examined the Council’s position against the CIPFA/SOLACE Framework Delivering Good Governance in Local Government which defines the seven core principles, each supported by sub-principles which underpin the governance framework of the Council.

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

The Council is accountable not only for how much it spends, but also for how it uses the resources under its stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes which have been achieved. In addition, the Council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, it can demonstrate the appropriateness of all its actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Principle A Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Overall Assessment ADEQUATE
What the Council does well	<ul style="list-style-type: none"> <li>➤ The Council Plan sets out the Authority’s key priorities;</li> <li>➤ The Constitution details the roles of the Cabinet, Committees, full Council, Strategic Directors and Statutory Officers and has been significantly updated in the current year;</li> <li>➤ Codes of Conduct define the standards of behaviour for Members and officers;</li> <li>➤ The Authority operates an Equality and Diversity Policy, Whistleblowing The Confidential Reporting Code and Complaints Procedures;</li> <li>➤ An Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and Anti-Money Laundering Policy demonstrate the Council’s stance against fraud;</li> <li>➤ The Monitoring Officer is responsible for ensuring the lawfulness of decisions taken by Council, Cabinet, Committees and officers;</li> <li>➤ Embedded arrangements for the delivery of Improvement and Scrutiny;</li> <li>➤ Financial Management Arrangements conform to the Cipfa Statement on the Role of the Chief Financial Officer in Local Government (2016);</li> </ul>

Principle A Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Overall Assessment <b>ADEQUATE</b>
<b>Areas for Improvement</b>	<ul style="list-style-type: none"> <li>➤ The Standards Committee monitors and reviews the operation of the Constitution and the ethical framework and has conducted a major review during the past year;</li> <li>➤ Role profiles have been recently updated and agreed for Members and together with Personal Development Plans inform Member Development programmes;</li> <li>➤ Clear channels of communication are in place for all sections of the community and stakeholders;</li> <li>➤ Embedded, recently reviewed Financial Regulations and Standing Orders, Procurement policies and practices and the Derbyshire Partnership Toolkit.</li> </ul> <ul style="list-style-type: none"> <li>➤ The Council should continually review how it best protects its vulnerable residents and takes on board learning from all relevant reviews whether they are Derbyshire focussed or not, e.g. safeguarding reviews, governance reviews, national research into child sexual exploitation etc.;</li> <li>➤ The Council's Corporate Governance Group, chaired by the Director of Legal Services and Monitoring Officer, would operate more effectively if its profile could be raised, membership expanded and its activities better resourced;</li> <li>➤ Officers' declarations of interests and gifts and hospitality are not consistently made and recorded;</li> <li>➤ The Whistleblowing The Confidential Reporting Code will be reviewed and communicated more widely;</li> <li>➤ Embed ethical standards following receipt of recent report from the Committee on Standards in Public Life.</li> </ul>

**B. Ensuring openness and comprehensive stakeholder engagement**

The Council is run for the public good and therefore should ensure openness in its activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Principle B Ensuring openness and comprehensive stakeholder engagement	Overall Assessment GOOD
What the Council does well	<ul style="list-style-type: none"> <li>➤ The Assistant Director of Finance (Audit) produces an Annual Report which is considered by Audit Committee, highlights both significant areas of good practice and those where improvements can be made. This Report includes the annual internal audit opinion which concludes on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control;</li> <li>➤ The Authority operates a partnership protocol, toolkit and database with specific requirements of partnership working defined in Financial Regulations;</li> <li>➤ Certain partnership arrangements are subject to annual review by Audit Services;</li> <li>➤ The Council publishes Member decisions on the website;</li> <li>➤ The Council engages with the citizens of Derbyshire;</li> <li>➤ The Council consults stakeholders as part of the decision making process where appropriate;</li> <li>➤ The Council fulfils its responsibilities on the Duty to Cooperate;</li> <li>➤ Equality Impact Assessments are undertaken and considered in decision making;</li> <li>➤ A Communications Strategy is in place;</li> <li>➤ The Council consults with citizens, trade unions and business ratepayers when setting its budget;</li> <li>➤ The Council has an “Enterprising Council” Strategy and approach designed to ensure services meet the needs of users, utilising the best delivery vehicle in each circumstance.</li> </ul>
Areas for Improvement	<ul style="list-style-type: none"> <li>➤ More active use of parish/town councils and community groups could be considered;</li> <li>➤ Embedding of on-line Committee Management System to improve access to councillors and democracy;</li> <li>➤ Partnership working arrangements are redesigned using the Thriving Communities approach to create strategic partnership engagement to deliver shared outcomes.</li> </ul>



**C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

The long-term nature and impact of the Council’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the Authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including employee groups, Citizens’ Panel, Youth Council, 50+ Forum, BME Forum, Local Area Fora, School Councils, service user groups and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

Principle C Defining outcomes in terms of sustainable economic, social and environmental benefits		Overall Assessment ADEQUATE
What the Council does well	<ul style="list-style-type: none"> <li>➤ The Council Plan outlines the Council’s strategy and vision;</li> <li>➤ Departmental and Service Plans are developed which are consistent with the overarching Council Plan and incorporate a range of performance measures;</li> <li>➤ Progress against a range of targets is monitored;</li> <li>➤ The Authority has in place an effective risk management framework;</li> <li>➤ The Strategic Risk Register is subject to regular review;</li> <li>➤ Capital investment is structured and in line with the Investment Strategy.</li> </ul>	
Areas for Improvement	<ul style="list-style-type: none"> <li>➤ Ensure that decisions are taken with regard to, or based on the longer term view;</li> <li>➤ More emphasis could be placed on measuring and monitoring longer term outcomes as opposed to outputs;</li> <li>➤ Ensure key equipment and processes to support business continuity planning are effectively maintained;</li> <li>➤ A social value approach is in place. The Council should continue to develop and embed social value to ensure that the economic, environmental and social benefits are realised for Derbyshire when procuring services.</li> </ul>	

**D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Council achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that the Council has to make to ensure intended outcomes are achieved. Robust decision-making mechanisms are required to ensure that defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

<b>Principle D Determining the interventions necessary to optimise the achievement of the intended outcomes</b>		<b>Overall Assessment ADEQUATE</b>
<b>What the Council does well</b>	<ul style="list-style-type: none"> <li>➤ Financial Regulations and Standing Orders in relation to Contracts are subject to periodic review by officers and the Audit Committee;</li> <li>➤ Decision making protocols are in place;</li> <li>➤ Social value consideration are included in decisions where appropriate;</li> <li>➤ Financial, Procurement and ICT Strategies are in place;</li> <li>➤ Member Report considerations include financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, social value, property and transport considerations;</li> <li>➤ The Council has Improvement and Scrutiny Committees in place.</li> </ul>	
<b>Areas for Improvement</b>	<ul style="list-style-type: none"> <li>➤ Development of consistent and effective business cases;</li> <li>➤ The Council could develop a more proactive approach to the use of collective intelligence to guide decision making, rather than data;</li> <li>➤ Revised Strategy in relation to HR will be useful to ensure consistent council wide approach and guide future investment in skills;</li> <li>➤ Development of a robust post implementation review process for major projects;</li> <li>➤ Review of officer scheme of delegation to optimise achievement of outcomes.</li> </ul>	

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

The Authority needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. The Council must ensure that it has both the capacity to fulfil its own Plans and objectives and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which the Authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. The Council’s leadership is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

<b>Principle E Developing the entity’s capacity, including the capability of its leadership and the individuals within it</b>		<b>Overall Assessment ADEQUATE</b>
<b>What the Council does well</b>	<ul style="list-style-type: none"> <li>➤ Members and officers work together to deliver a common purpose with clearly defined functions and roles;</li> <li>➤ The arrangements for Member training and development are reviewed through the Member Development Working Group;</li> <li>➤ Staff development is supported through the provision of generic and specific skills training including supporting the maintenance of professional standards and qualification training including use of the apprenticeship levy;</li> <li>➤ Senior Leadership and Leadership Forums are embedded;</li> <li>➤ The Council operates a MyPlan process to identify training and development opportunities.</li> </ul>	
<b>Areas for Improvement</b>	<ul style="list-style-type: none"> <li>➤ Strategy to manage staff reductions and the impact on capability and capacity;</li> <li>➤ Whilst there are areas of good practice relating to staff inductions and MyPlans there are opportunities to develop these processes;</li> <li>➤ Workforce planning, succession planning, mentoring leadership training and management development is not formalised and monitored within the Council. It is inconsistent with no Council wide approach in place;</li> <li>➤ Consistent training of new staff in the IT systems they are expected to use, alongside refresher training for existing staff to ensure effective use of systems.</li> </ul>	

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

The Council needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system which facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

<p><b>Principle F</b>  <b>Managing risks and performance through robust internal control and strong public financial management</b></p>	<p><b>Overall Assessment</b>  <b>GOOD</b></p>
<p><b>What the Council does well</b></p>	<ul style="list-style-type: none"> <li>➤ The Audit Committee operates in accordance with prescribed terms of reference and holds Statutory Officers to account. The Committee receives, approves and monitors the Audit Plans for internal and external audit;</li> <li>➤ The Audit Committee monitors the effectiveness of the Authority’s risk management arrangements;</li> <li>➤ Audit Committee Members are provided with relevant training;</li> <li>➤ The effectiveness of the governance framework including the system of internal control is reviewed annually;</li> <li>➤ Audit Services review the effectiveness of the Authority’s internal controls;</li> <li>➤ The Council has an embedded Risk Management Strategy;</li> <li>➤ The Strategic Risk Register is subject to regular review and project specific risk logs are in place for major projects and partnerships which are subject to ongoing review;</li> <li>➤ Emerging risks are identified by the reviews and from ongoing Audit work;</li> <li>➤ Departmental risk registers are in place and regularly reviewed by management teams;</li> <li>➤ Strong and effective information governance arrangements;</li> <li>➤ The Council has been proactive in its approach to the General Data Protection Regulation (GDPR) and dealing with data breaches.</li> </ul>

Principle F Managing risks and performance through robust internal control and strong public financial management	Overall Assessment GOOD
Areas for Improvement	<ul style="list-style-type: none"> <li>➤ The Council has a Medium Term Financial Plan and effective Budget Monitoring Procedures endorsed in the recent Corporate Peer Review by the Local Government Association;</li> <li>➤ The Scrutiny Committees scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;</li> <li>➤ The standards of behaviour and conduct are detailed in the Protocol for Elected Member Behaviour and Conduct;</li> <li>➤ Whistleblowing The Confidential Reporting Code enables individuals or organisations to disclose information about malpractice whilst offering protection;</li> <li>➤ Performance management is well embedded at a Departmental level;</li> <li>➤ The Council has established a working group to consider cyber security risks.</li> <li>➤ Independence of Internal Audit and unrestricted access to all Members and officers as appropriate;</li> <li>➤ Ensuring compliance with the principles set out in the CIPFA guidance on the Role of the Chief Financial Officer in public service organisations.</li> </ul> <ul style="list-style-type: none"> <li>➤ Data Protection arrangements will require continual monitoring and review to ensure compliance with the General Data Protection Regulation.</li> <li>➤ Cyber security threats will require ongoing monitoring and development of appropriate responses which is a key work stream for the cyber security working group;</li> <li>➤ The APEX performance system requires further development to utilise it to its full capacity.</li> </ul>

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

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

<b>Principle G Implementing good practices in transparency, reporting and audit to deliver effective accountability</b>		<b>Overall Assessment GOOD</b>
<b>What the Council does well</b>	<ul style="list-style-type: none"> <li>➤ The Constitution defines how the Council operates and the decision making processes to ensure the Council is efficient, transparent and accountable to local people;</li> <li>➤ Council, Departmental and Service Plans set out objectives and include performance targets;</li> <li>➤ Council, Cabinet and Member meetings are open to the public and minutes are published on the website;</li> <li>➤ Financial Statements are produced and published on a consistent and timely basis;</li> <li>➤ Departmental Financial Schemes of Delegation supplement the Council's Financial Regulations and Standing Orders relating to Contracts;</li> <li>➤ The Assistant Director of Finance (Audit) produces their Annual Report which is considered by Audit Committee and highlights both significant areas of good practice and those where improvements can be made;</li> <li>➤ Partnership working arrangements are established;</li> <li>➤ The Council routinely publishes data and meets the requirements of the Local Government Transparency Code;</li> <li>➤ Schemes of Delegation were reviewed during 2018-19.</li> </ul>	
<b>Areas for Improvement</b>	<ul style="list-style-type: none"> <li>➤ Continue to improve robust systems for property valuations building on the enhancements completed during recent years;</li> <li>➤ Procurement of an on-line Committee Management System to aid transparency of the democratic process;</li> <li>➤ Action recommendations of LGA Peer Review to aid future improvement;</li> <li>➤ Continue to review the Constitution to ensure it remains fit for purpose to deliver effective accountability;</li> <li>➤ Develop systems and protocols to support and monitor partnership working.</li> </ul>	

## The Annual Governance Statement

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We have been advised on the implications of the results of the review of the effectiveness of the governance framework by the Audit Committee and that a plan to address weaknesses and ensure continuous improvement of the system is in place.

We propose over the coming year to take steps to address those opportunities for improvement highlighted above so as to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Date

Date

On behalf of Derbyshire County Council

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