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# Foreword by the Deputy Chief Executive and Director of Corporate Resources

## Accounts

The Council's accounts for the year 2006/07, which follow, include:

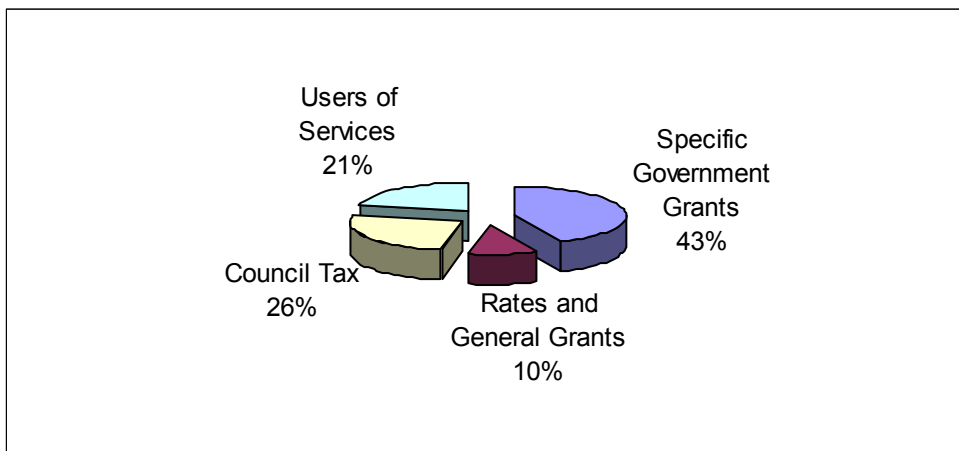
- A Statement of Responsibilities for the Statement of Accounts, outlining the responsibilities of the County Council and the Deputy Chief Executive and Director of Corporate Resources;
- A Corporate Statement of Assurance;
- A Statement of Accounting Policies;
- A Statement on Systems of Internal Financial Control;
- The Income and Expenditure Account, detailing expenditure and income by services;
- The Statement of Movement on the County Fund balance;
- The County Fund Balance Sheet, setting out the financial position of the Council at the year end;
- A Statement of Recognised Gains and Losses;
- A Cash Flow Statement summarising the inflows and outflows of cash arising from transactions with third parties;
- The accounts of the East Sussex Pension Fund, which is administered by the County Council. Participating authorities include the County Council, District Councils in East Sussex, Brighton and Hove City Council and other bodies.

We have adopted accounting policies that comply with the relevant recommended accounting practices and are explained on the following pages.

## Revenue Account

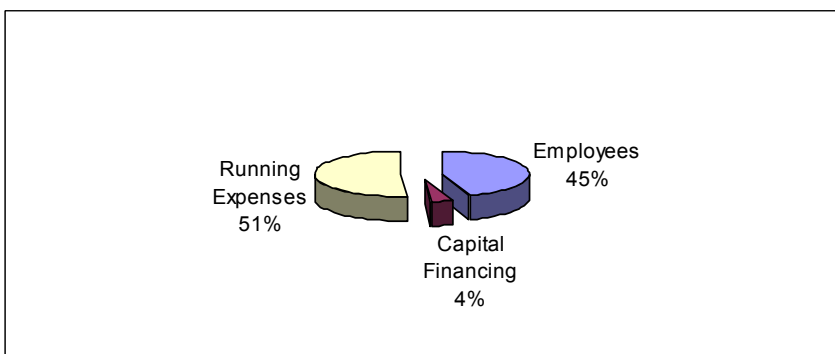
The following two charts show where the Council's money comes from, what it is spent on and what services it provides. The Income and Expenditure Account on page 14 shows the services that the County Council provides.

### Where the money came from



This table shows that 43% of the County Council's revenue requirement came from specific Government grants, this percentage has risen from 14% in 2005/06 due to the new dedicated schools grant, however the proportion of income from general Government grants and the Council's share of the non-domestic (or business) rate, also set by Government, has fallen by a corresponding amount, from 40% to 10%. This means that the proportions met by Council Tax payers and users are virtually unchanged from last year at 26% and 21% respectively.

### What the money was spent on



## Foreword by the Deputy Chief Executive and Director of Corporate Resources

County Council services are staff intensive and employee costs accounted for 45% of the gross expenditure. Running expenses including costs of premises, transport, supplies and services, third party payments etc. accounted for just over half of all costs at 51%, and capital financing - the cost of borrowing (interest and repayment) took the remaining 4%.

### Revenue Budget

The table below sets out the main components of the revenue budget for 2006/07, and how these compare with the actual outturn:

	Original Estimate £m	Actual Outturn £m
Net expenditure on services	246.1	242.3
Capital financing and interest	37.5	30.5
Insurance Receipt	0.0	(4.3)
Levying bodies	0.3	0.3
Total net expenditure	283.9	268.8
Other movements	(0.0)	17.9
Change in balances	(0.8)	(0.6)
Net budget requirement	283.1	286.1
Financed from		
Revenue Support Grant	13.1	13.1
Non-Domestic Rates	66.7	66.7
Council Tax	203.3	203.3
Performance Reward Grant	0.0	2.7
LABGI Grant	0.0	0.3
	283.1	286.1
Balances		
Opening	7.3	7.3
Change during year	(0.7)	(0.6)
Closing	6.6	6.7

The County Council's original estimate of net expenditure for the year amounted to £283.1m. The table shows that service expenditure by departments was around 1.5% below the original budget. Other savings and additional one-off income enabled net expenditure to be reduced to £268.8m. The one-off income and grant monies that have been set aside to pay for future capital schemes, together with a transfer to the reserve for Departmental underspendings, have contributed to the increase in other movements.

As a result of the new dedicated schools grant net expenditure on services is shown in the Income & Expenditure account on page 14 as nearly £217m lower than in 2005/06. Without the new grant net spending would have been shown as rising by £20m overall and by £15m on Education Services.

The County Council's general balances amounted to £6.7m at the year end, an increase of £0.1m over the original estimate and are in line with the target minimum level set by the County Council.

### Capital

In 2006/07 the County Council spent £51.2m on its roads, schools, and other capital projects.

	Original budget £m	Revised budget £m
Agreed programme	65.3	54.8
Agreed changes to the programme	-	2.1
Impact of delays from previous years *	0.8	-
	66.1	56.9
2006/07 Expenditure	(51.2)	(51.2)
Net under/ (over) spend	14.9	5.7

\* The impact of scheme delays was built into the revised budget.

The under spend of £5.7m compared to the revised budget represents expenditure brought forward from 2007/08 of £1.6m, offset by scheme delays of £7.4m and net underspends of £0.1m.

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The larger schemes during the year included structural maintenance of roads throughout the county, improvements to schools, and works to improve access to County Council properties for people with disabilities.

During 2007/08 the County Council plans to invest £76.9m, which will be funded as follows:

	£m
Borrowing	23.9
Capital grants and contributions	33.7
Capital receipts	1.9
Capital programme reserve	15.1
Revenue contributions	2.3
Total resources	<u>76.9</u>

At 31 March 2007 the County Council's financing requirement, representing its overall need to borrow to finance past capital expenditure, was £259.8m, as set out in Note 18 to the accounting statements.

### East Sussex Pension Fund

The overall rate of return achieved by the Fund was 6.5% compared to the average return achieved by Local Authority funds of 7.0%.

Provision for increases in employer's contribution rates has been built into the 2006/07 budget and into the County Council's medium term financial plan, following the actuarial valuation of the fund at 31 March 2004. Work is now underway on the next actuarial valuation as at 31 March 2007 which will be used to calculate the contribution rates required in future years.

In line with the accounting standard FRS 17, the County Council's net liability for future pension payments, as shown in the Balance Sheet, has reduced from £212.2m at the start of the year to £171.9m at 31 March 2007. Note 6 to the accounting statements provides more information about the impact of this liability.

### Changes to accounting policies

Changes to the local authority Statement of Recommended Practice (SORP) taking effect from 2006/07 involve major changes in the layout of the accounts, with the previous County Fund Revenue Account being replaced by the Income and Expenditure Account and Statement of Movement in the County Fund, while the Statement of Total Movement in Reserves (which brings together all gains and losses not reported in the Income and Expenditure Accounts with the outturn on the Income and Expenditure to show the total movement in the Council's net worth) is replaced by the Statement of Recognised Gains and Losses. There are corresponding changes to the notes to the accounting statements.

The new SORP also removes the notional interest element of capital charges previously charged to the revenue account. These charges were reversed elsewhere in the revenue account. In addition credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item. Neither of these changes has an impact on the amounts chargeable to taxation, but the 2005/06 figures in the Income and Expenditure account have been adjusted to bring them into line with 2006/07. See also Note 2 to the accounting statements.

### Major influences on the Authority's financial position

In 2003/04 the Government introduced changes to the formula used to distribute grant to Local Authorities. Those changes had severe consequences for East Sussex County Council. Since then the County Council has received only the minimum 'floor' protection for its annual grant increases. These minimum increases are annually entirely at Ministerial discretion. As it was, the increases in grant were the lowest of any County Council in 2004/05 and 2005/06, and second lowest in 2003/04. Most of the grant actually received in this period had to be passported to schools budgets and over the four years to 2005/06 the County Council actually received only 1% more grant in total for all services other than schools.

For 2006/07 another approach to grant distribution was introduced by Government. There were two key elements of this:-

- The introduction of a new specific grant, the Dedicated Schools Grant (DSG) for funding schools. This grant change, which was cost neutral for the Council overall, resulted in £222m transferring from general formula grant to DSG (which rose by 6.8% per pupil);
- A change of the formula for distributing general grant moving away from the Formula Spending Shares (FSS) approach to a new 4 block model. The impact of this new formula was more widespread than the 2003/04 changes. Nationally, the underlying impact was so severe that the floor protection mechanism had to be much more widely used and it effectively overwrote the underlying formula. For 2006/07 there were 70 floor authorities with the remaining 80 upper tier Councils having their grant increases scaled back to finance the floor protection.

The floor increase in grant for East Sussex County Council of 2% in 2006/07 amounted to additional grant of £1.6m – against standstill pressures of some £18m. Put another way this £1.6m equated to only 0.6% more grant to meet all spending pressures outside schools (e.g. social care, waste disposal, libraries, highway and building maintenance).

Meeting the standstill budget pressures of £18m within the approved Council Tax rise of 4.7% has required savings of £6.3m which have been targeted to provide some protection for the highest priority services such as Children's Services, Waste

## Foreword by the Deputy Chief Executive and Director of Corporate Resources

disposal and Adult Social Care. The resulting planned revenue spending for 2006/07 was £283m net of specific grants and other income.

The County Council believes that the changes made to the way that Government Grant is distributed are unfair, and continues to do all that it can to persuade Government to adopt a fairer approach.

Against this difficult background making good use of resources and managing them well is particularly important. In 2006/07 the Council again achieved its targeted score of 3 out of 4 in the harder, Comprehensive Performance Assessment (CPA) methodology for the use of resources. The Council's highly successful Reconciling Policy and Resources initiative which is used to develop policy, service plans and budgets in a fully integrated way, was awarded 4 out of 4 and highlighted by the Audit Commission as notable best practice.

Overall, East Sussex County Council is 'improving adequately' and under the overall star rating CPA process, has been awarded three stars (out of a possible four). This annual judgement of the Audit Commission also states that "resources are well arranged and value for money is good. The Council faces a major challenge to further modernise services within existing resources".

Successes in 2006/07 include:

- The percentage of new older clients who had all services in the care package provided within four weeks of completing their assessment increased from 71.4% in 2005/06 to 79% in 2006/07;
- The East Sussex Contextual Value Added score for Key Stage 2 to 4 in 2006 was 1110: well above the national average of 1003. This placed the County at the top of our statistical neighbour comparison and ranked 17 out of the 150 Children's Services Authorities in the country;
- The Buy with Confidence Scheme has continued to go from strength to strength with membership standing at 243 in March. Preserving the credibility of the Scheme remains a key priority and officers are now actively involved in re-audits of existing members on a rolling basis;
- 99.1% of reports of dangerous damage to roads and footways were repaired within 24 hours;
- Signing of the Small Business Friendly Concordat as part of a project led by ESCC on behalf of all Sussex Councils which subsequently led to the Council being rated sixth most small business friendly out of 52 south east councils surveyed by Federation of Small Businesses;
- We have successfully implemented the one megawatt biomass fuelled boiler at Beacon Community College to reduce carbon emissions and running costs of the school;
- A new web-based application system for school admissions was introduced, more than trebling electronic submissions from 1,475 to 5,071.
- The County Council has one item of exceptional income which is material in terms of the Council's overall net expenditure and not expected to recur frequently. This is shown separately under net cost of services as insurance receipt, and relates to income in settlement of the claim for rebuilding costs of part of Tideway School Newhaven which was severely damaged in a fire in April 2005. This income is required by accounting standards to be credited to income but it will be used to help finance the Council's capital programme and accordingly it has been used to increase the contribution to the capital programme reserve.

In setting its budget for 2006/07 the Council also set out its planned future pattern of Council Tax increases for the following three years. These are subject to the uncertainty of Government grant allocations from 2008/09 onwards but represent a reduction of 0.4% per annum in the increase giving:

2007/08 4.3%  
2008/09 3.9%  
2009/10 3.5%

This guidance, and the associated cash limits for each service, will enable improved medium term service planning to take place and will continue to require significant efficiency savings to be made.

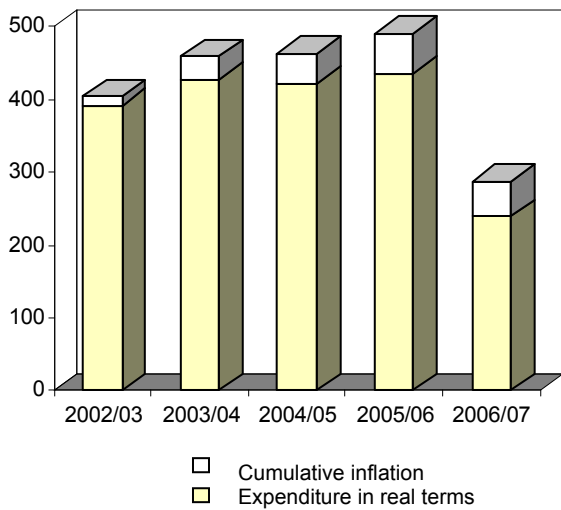
Sean Nolan

Deputy Chief Executive and Director of Corporate Resources

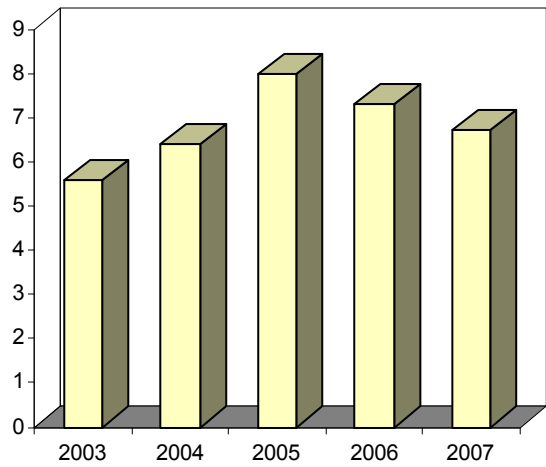
18 June 2007

# Statement of Responsibilities for the Statement of Accounts

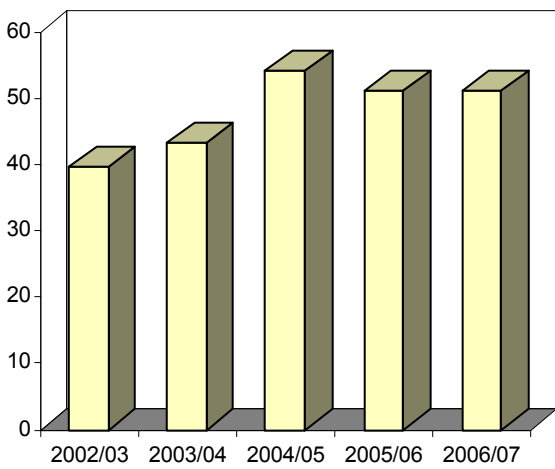
**Net Revenue Expenditure in real terms £m**



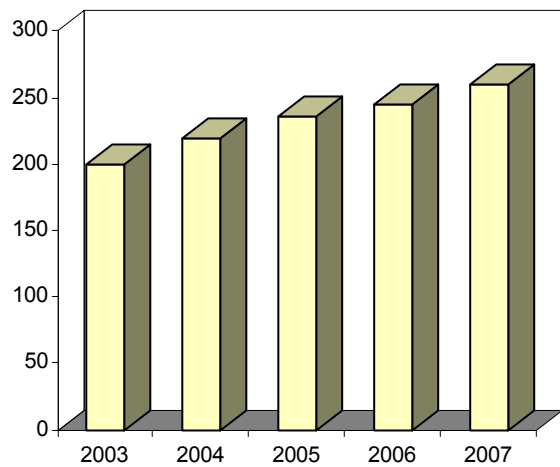
**Revenue Balances at 31 March £m**



**Capital Payments £m**



**Capital Financing Requirement at 31 March £m**



# **Statement of Responsibilities for the Statement of Accounts**

## **The Authority's Responsibilities**

The authority is required:

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

## **The Responsibilities of the Deputy Chief Executive and Director of Corporate Resources**

The Deputy Chief Executive and Director of Corporate Resources is responsible for the preparation of the authority's statement of accounts which, in terms of the Chartered Institute of Public Finance and Accountancy/Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in Great Britain ('the Code') is required to present fairly the position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

In preparing this statement of accounts the Deputy Chief Executive and Director of Corporate Resources has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code

## **The Deputy Chief Executive and Director of Corporate Resources has also:**

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

## 1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a code of corporate governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. A copy of the code is on our website at [www.eastsussex.gov.uk](http://www.eastsussex.gov.uk) or can be obtained from the Council's Monitoring Officer. The County Council's arrangements for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which include arrangements for the management of risk are a fundamental element of our governance framework.

## 2. Purpose of governance and internal control frameworks

The code of corporate governance can provide only reasonable and not absolute assurance that an authority directs and controls its functions and relates to the community that it serves in accordance with the principles of openness, inclusivity, integrity, accountability and leadership. Equally the County Council's system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve our policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The code of corporate governance and system of internal control has been in place at East Sussex County Council for the year ended 31 March 2007 and up to the date of the approval of the statement of accounts.

## 3. Review of effectiveness

East Sussex County Council reviews the effectiveness of its governance arrangements, including its system of internal control, on an ongoing basis. This review of effectiveness is informed by:

- the work of Members through the Cabinet, Committees including Audit and Best Value Scrutiny Committee and the full Council;
- the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
- the work of the Deputy Chief Executive and Director of Corporate Resources (as Chief Financial Officer) and the Financial Management Team and the Statement of Internal Financial Control;
- the work of the Monitoring Officer and the Corporate Governance Group;
- the annual risk management report and periodic review of strategic risks conducted by Chief Officers;
- the work of the internal audit service including their annual report and opinion;
- the external auditors in their audit and inspection annual letter and annual governance report;
- the Audit Commission's Comprehensive Performance Assessment where the Council's governance and internal control arrangements continue to be rated as 3 out of 4 against the new higher standards;
- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman and the Standards Board for England.



## 4. Key elements of the governance and internal control environments

The governance arrangements and system of internal control put in place by the County Council include:

- the Council's constitution which sets out clear arrangements for decision making and the delegation of powers to officers and Members;
- clear arrangements for scrutiny and best value;
- an established medium term planning process including the process for reconciling policy priorities with financial resources;
- a clear business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the Council's key objectives, as set out in the Council Plan, to officers and Members;
- a risk management strategy and detailed risk management framework, which takes account of both strategic and operational risks and ensures that they are appropriately managed and controlled;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- a clear framework for financial governance based on Contract Standing Orders, Financial Regulations and Standard Financial Procedures;
- financial management structures which promote ownership of financial issues within service departments;
- a clear framework for project management for all types of project;
- codes of conduct for Members and employees which set out clear expectations for standards of behaviour;
- policies for ICT security, access to information and data protection;
- personnel policies and procedures, and;
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption.

## 5. Assurance and Disclosure of Significant Internal Control Issues

No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the County Council's governance arrangements and its system of internal control. On the basis of the review of the sources of assurance set out in this statement, we are satisfied that the County Council has in place satisfactory governance arrangements and a satisfactory system of internal control both of which are operating effectively.

As part of our review, we are required to identify and disclose any gaps in assurance over principal risks and any significant internal control issues. No such gaps in assurance or significant control issues have been identified.

The Council will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process. In particular, the Council will continue to monitor risks in relation to:

- The overall challenge of reconciling and sustaining our improvement agenda and policy priorities within a challenging financial environment;
- The management of generically risky and volatile demand-led budget areas;
- The delivery of Adult Social Care services in the context of structural change and financial pressures within the local health economy, progress in modernising services in line with the action plan agreed with the Audit Commission, and the delivery of the Business Transformation Programme;
- Improving our performance in waste management through our joint waste management service contract.

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities. The Council has identified a number of areas where it wishes to enhance its governance arrangements and actions plans are in place to address these.

Councillor Peter Jones, Leader

Cheryl Miller, Chief Executive

29 June 2007



# Statement of Accounting Policies

## 1. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provides legally binding guidance on local authority accounting (*the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice*). We have complied with this standard, except where noted in the paragraphs below. The accounts of the Pension Fund are also in accordance with the Statement of Recommended Practice for pension funds.

## 2. Accounting for Assets

We record as capital expenditure all transactions that involve the purchase of new assets or of expenditure that adds to their value. The purchase of furniture and equipment is treated as capital if it is associated with capital building works. Otherwise individual items of vehicles and equipment are treated as capital if the value is over £20,000. If the value is less than this sum we charge it to revenue. The only exception being in respect of spending by schools from Standards Fund capital grants which in accordance with the DfES Conditions of Grant is all treated as capital expenditure in the accounts with no lower limit.

We include in the Balance Sheet all assets under the following headings: intangible assets (computer software), land and buildings, roads and other infrastructure, furniture, vehicles and equipment (if it is worth more than £20,000), and community assets. See Note 20 for information about how we value our assets.

We charge depreciation on all of our assets, except for freehold land and assets under construction, over their expected remaining life. An additional charge is made for impairment if there has been an unusual event, such as a fire, which affects the value of an asset. An impairment charge may be reversed in a subsequent year, after the asset has been restored.

We update the value of our assets by recording revaluations (for land, buildings, vehicles and individual items of equipment), depreciation, enhancements (capital expenditure) and disposals such as sales.

## 3. Deferred Charges

Some of the expenditure initially charged to capital does not increase the value of our assets. In some cases this is because we capitalise expenditure on schemes such as increasing access for the disabled: such expenditure is initially added to the asset value and then revalued to negate its effect. There are other circumstances where we account for capital expenditure as deferred charges rather than assets. This includes expenditure on assets not owned by the County Council, on feasibility studies for schemes that may or may not take place, and on investment in IT facilities (if it amounts to over £20,000) other than equipment and software. In addition the Government may direct the County Council to treat as capital expenditure items which would normally count as revenue. These would not result in an asset or an increase to the value of existing assets and are therefore treated as deferred charges. The cost of deferred charges is immediately charged to the revenue account for the appropriate service. A corresponding reduction is made in the Statement of Movement in the County Fund balance, so that this does not affect the overall charge to the taxpayer.

## 4. Depreciation and Impairment charged to Revenue Account

We charge each service account a capital charge, which is made up of depreciation, together with any impairment charge. This is reversed in the Statement of Movement on County Fund Balance, and has no impact on taxation.

## 5. Capital Receipts

Capital receipts from the sale of assets are held in a reserve until they are required to finance capital expenditure.

## 6. Grants

We account for revenue grant income in the same year as the related expenditure. Capital grant income is held as Income in Advance until it is required to finance the related capital expenditure, when we transfer it to the Government Grants Deferred Account. The amounts which make up the Government Grants Deferred and Capital Contributions Deferred accounts are written off to individual services to offset the depreciation charge of the fixed assets funded from grants and contributions or adjusted in line with the asset accounts to which they relate.

## 7. Interest Charges

We accrue for interest payable or receivable during the year but not actually paid or received by 31 March. This ensures that we account for all interest in the year to which it relates. We regularly examine our debt portfolio and replace existing loans in order to reduce the overall cost. The reduction in interest payable is partly offset by a premium payment, which we charge to revenue over the life of the loan that has been replaced. We consider this practice to be more prudent than the normal practice of charging a premium over the life of the new loan.

## 8. Redemption of Debt

There is a legal requirement for the County Council to provide for the redemption of at least 4% of its total debt outstanding at the start of the year. This is not a cost to the Income & Expenditure account but is charged to the County Fund through the statement of movement on the County Fund balance.

## 9. Debtors and Creditors

We record all transactions on the basis of income and expenditure. In order to achieve this we account for actual or estimated debtors and creditors at the end of the year, except in two cases:

- Charges for utilities (gas, electricity and telephones) are not accrued, so long as we have paid for a full twelve months during each financial year;
- Most accounts for Trust Funds are kept on a receipts and payments basis.

Lump sum payments relating to redundancy cases are accounted for in the period when the related decision was taken.

## 10. Stocks and Work in Progress

We normally value stocks at the lower of cost or net realisable value, in accordance with SSAP 9 (Statement of Standard Accounting Practice – Stocks and Long Term Contracts). However catering stocks are valued at the latest invoice price.

## Statement of Accounting Policies continued

### 11. Overheads

The costs of support services are fully charged to services. Charges are based on time allocations for central departments, floor areas for administrative buildings and actual usage for computing. Some overhead charges are allocated pro-rata to gross expenditure.

There are some central costs, classified as the corporate and democratic core, which are shown under Central Services in the County Fund Revenue Account. All expenditure is classified according to CIPFA's Best Value Accounting Code of Practice.

### 12. Pensions

The County Council contributes to two different pension schemes that meet the needs of different groups of employees. Both schemes provide their members with defined benefits related to pay and service. The schemes are:

#### Teachers' Pensions

This scheme is administered by the Department for Children, Schools and Families (formerly the Department for Education and Skills). The scheme is unfunded, but the contribution rate is determined by the Department on the basis of a notional fund. The charge to our accounts is the amount payable to the Department as the employer's contribution for the year.

#### Local Government Pensions

Most other employees can join the Local Government Pension Scheme. The County Council maintains the pension fund for all local authorities within the geographical area of East Sussex.

The County Council's Balance Sheet includes a net Pensions Liability, representing the gross current cost of its liability to pay pensions in future years, less its share of the assets of the Pension Fund. This liability includes the discounted cost of paying the added years element of pensions in future financial years. The net liability is balanced by the Pensions Reserve.

The Net Cost of Services in the County Fund includes the current service cost of providing pensions arising from employing staff in the course of the year. It also includes the discounted cost of paying over future years any added years added to pension entitlements during the current financial year. Other costs and gains arising from pension liabilities are shown in the 'Net Operating Expenditure' section of the Income and Expenditure Account.

### 13. Investments

The investments in the County Council's accounts are shown at cost, except for the shares in the Sussex Innovation Centre. These are written down over 25 years, in line with the terms on which the shares were issued.

The Council is of the opinion that it has no material interest in any company or other entity which would require it to produce Group Accounts alongside its own financial statements.

We show the investments held by the Pension Fund at the market price. The sources of valuation are as follows:

- All UK investments traded within the Stock Exchange Electronic Trading System (SETS) are valued at the last price at which they were traded in SETS;

- Investments held as units in a fund are valued at the latest available price before the end of the year;
- All other listed UK securities are valued at their mid market price;
- Investments held in foreign currencies are valued at the appropriate basis, and their values are translated into sterling according to the exchange values.

### 14. Provisions and Reserves

We set aside provisions where there is a definite liability, but the amount and timing of settlement is not known. Details are given as notes to the accounting statements.

Reserves are set aside for various purposes which fall outside the definition of provisions. Details of individual reserves are given as a note to the accounting statements.

### 15. Pension Fund

Foreign income is translated into sterling at the exchange rate at the time of the transaction.

The expenditure of the Fund includes all valid benefit claims arising during the financial year.

### 16. Estimation Techniques

Accounting policies and estimation techniques have been selected and exercised, having regard to the accounting principles and concepts set out in Financial Reporting Standard (FRS) 18, specifically:

- The qualitative characteristics of financial information;
- Relevance;
- Reliability;
- Comparability;
- Understandability;
- Materiality;
- Pervasive accounting concepts;
- Accruals;
- Going concern;
- Primacy of legislative requirements.

### 17. Contingent Assets and Liabilities

The County Council only records definite assets and liabilities in its Balance Sheet. Where income or expenditure is dependent on the result of an event such as a court case, details of material items are shown as notes to the accounting statements.

### 18. Prior Year Adjustments

Accounting standards require amendments to opening Balance Sheet figures and to the previous year's comparatives either for changes to accounting policies or to correct fundamental misstatements in the accounts.

### 19. Value Added Tax

VAT paid by the County Council is only shown in the accounts as an amount recoverable from Customs and Excise. VAT charged by the County Council to its customers is payable to Customs and Excise, and is therefore shown only as a reduction of the net amount payable.

### **20. Operating Leases**

Rental charges payable under operating leases are charged to revenue on a straight-line basis over the length of the lease, in line with the payments made.

### **21. Landfill Allowances Trading Scheme**

The Government allocates allowances for landfill to local authorities, who are then able to trade them with each other. Although there is no cash charge for the allowances, we account for them as expenditure, with a corresponding grant receivable from the Government. The balance sheet contains both the value of outstanding allowances, at the lower of cost or net realisable value, and the County Council's liability for its use of landfill in the past financial year.

### **22. Exceptional Items**

Any material exceptional items are included within the cost of the relevant individual service or separately identified on the face of the income and expenditure account. Details of any such items are given in the explanatory notes.

### **23. Events After the Balance Sheet Date (FRS 21)**

The accounts have taken into consideration any material event after the balance sheet date:

- Those that provide evidence of conditions that existed at the balance sheet date for which the Council shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);
- Those that are indicative of conditions that arose after the balance sheet date for which the Council does not adjust the amounts recognised in its financial statements (non-adjusting events).

### **24. Private Finance Transactions (PFI)**

The basis of accounting for contracts which the County Council has entered into under the Private Finance Initiative contracts is determined by reference to Application Note F to Financial Reporting Standard 5 – “Reporting the Substance of Transactions” – Private Finance Initiatives and similar contracts”.

## Statement on Systems of Internal Financial Control for the year ended 31 March 2007

This statement is given in respect of the statement of accounts for East Sussex County Council. I acknowledge my responsibility under the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2006 for ensuring that there are adequate and effective arrangements for financial management and that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Council;
- the work of the Finance Management Team (FMT);
- the work of the internal audit service;
- the external auditors in their annual audit letter and other reports; and
- the Audit Commission's Comprehensive Performance Assessment.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved. It is the responsibility of internal audit to form an independent opinion on the adequacy and effectiveness of the system of internal control. In particular, the system includes:

- an established medium-term planning process including the process for reconciling policy priorities with financial resources;
- a clear business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- medium-term financial planning;
- established budgeting systems and clear budget management guidance;
- regular reporting of financial performance against budget forecasts to officers and Members;
- a clear framework for financial governance based on Contract Standing Orders, Financial Regulations and Standard Financial Procedures;
- clearly defined capital expenditure guidelines;
- clearly defined responsibilities for budget and financial management;
- head of profession links between the Deputy Chief Executive and Director of Corporate Resources, as designated Treasurer for the Council, and departmental finance teams;

- financial management structures which promote ownership of financial issues within service departments and the use of formal project management disciplines for major projects; and
- a clear Anti-Fraud and Corruption Policy.

In carrying out my responsibility for establishing sound financial management arrangements I have relied primarily on my head of profession links with the Financial Management Team and the systems and processes outlined above. I have also placed reliance on the County Council's statutory internal audit arrangements for which I am responsible. The in-house internal audit service is delivered in line with the Code of Practice for Internal Audit in Local Government in the United Kingdom. Internal audit delivery is based on a risk-based strategic audit plan and regular reporting to managers, chief officers and the Audit and Best Value Scrutiny Committee. On the basis of the audit reviews carried out, the Chief Internal Auditor provides an independent annual opinion on the adequacy and effectiveness of the system of internal control. The internal audit service works closely with the external auditor, within agreed protocols, to maximise the benefits from audit coverage at the County Council.

No assurance can ever be absolute; however, this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the County Council's system of internal financial control. Whilst recognising that there are a number of areas for improvement that have been identified as a result of internal audit activity during the year, in my opinion the County Council has in place a satisfactory framework of internal financial control. There are no significant weaknesses, however the County Council continues to face a number of challenges going forward (these are summarised at a strategic level in the Council's Strategic Risk Log) and will need to keep its system of internal financial control under review.

In particular the financial outlook continues to be difficult given the underlying national grant formula and this council's resultant dependency on 'floor' support. We fully expect that the outcome from the Comprehensive Spending Review 2007 will be an even more challenging financial situation. In view of the local responsibilities of the Council to plan on a sustainable basis, the Council has set clear 4-year (to 2009/10) service allocations and council tax levels over the period. Three year service plans have been developed to show how the Council will manage and improve its services within these financial constraints. Externally factors, particularly regarding the local health economy and its impact on Adult Social Care, continue to be a very significant concern. The organisation will need to be mindful of these and other strategic risks in its future planning and the system of policy prioritisation will need to be kept under regular review.

Continuing action will be taken to promote excellence in financial management across the Council. This will build on the firm foundations already in place and specific improvement initiatives have been identified in the Council Plan and supporting business plans for 2007/08. I remain satisfied, however, that all reasonable measures to control risk are being taken.

Sean Nolan

Deputy Chief Executive and Director of Corporate Resources  
18 June 2007



# County Fund Balance Sheet

2006		At 31 March		2007	
£000	£000	See Note		£000	£000
			<b>19-21 Fixed Assets</b>		
	5,558		Intangible Fixed Assets		5,218
			Operational Assets		
611,514			Land and Buildings	552,392	
22,802			Vehicles Plant and Equipment	24,903	
121,909			Infrastructure Assets	129,414	
<u>525</u>	756,750		Community Assets	<u>526</u>	707,235
			Non-operational assets		
3,882			Investment properties	3,927	
3,136			Assets under construction	10,093	
<u>5,782</u>	<u>12,800</u>		Awaiting Disposal	<u>6,671</u>	<u>20,691</u>
	775,108		<b>Total Fixed Assets</b>		733,144
	243	23,24	Long Term Investments		45,225
	3,880		Long Term Debtors		4,374
	<u>643</u>	5	Deferred premiums		<u>1,379</u>
	779,874		<b>Total Long Term Assets</b>		784,122
			<b>Current Assets</b>		
297			Stocks and Work in Progress	270	
3,088			Payments in Advance	3,620	
2,817			Landfill Allowances	2,525	
30,694		25	Debtors	29,962	
266		26	Cash in Hand	162	
<u>174,530</u>			Short Term Investments	<u>154,750</u>	
	211,692		<b>Total assets</b>		<u>191,289</u>
	991,566				975,411
			<b>Current Liabilities</b>		
(60,338)		27	Creditors	(64,954)	
(14,785)			Income in Advance	(25,374)	
(2,759)			Liability for Landfill Usage	(2,357)	
(414)			Short Term Borrowing	(219)	
<u>(18,072)</u>	(96,368)	26	Accrued balance at bank and for third parties	<u>(15,934)</u>	<u>(108,838)</u>
	895,198		<b>Total Assets less Current Liabilities</b>		866,573
			<b>Long-term liabilities</b>		
(257,405)		28	Long Term Borrowing		(260,382)
(212,215)		6	Liability related to defined benefit pension schemes		(171,912)
(78,546)		30	Government Grants Deferred		(87,534)
(13,679)		30	Capital Contributions Deferred		(15,394)
(107)		5	Deferred discounts		(28)
<u>(6,339)</u>		29	Provisions		<u>(4,829)</u>
	<u>326,907</u>		<b>Total Assets less Liabilities</b>		<u>326,494</u>
			Financed by:		
382,423		32	Fixed Asset Restatement Account		318,695
55,963		33	Capital Financing Account		51,287
5,264		34	Usable Capital Receipts Reserve		2,090
(212,215)		6	Pensions Reserve		(171,912)
77,864		35	Earmarked Reserves		110,977
7,315			Balances - County Fund		6,703
<u>10,293</u>			- Schools		<u>8,654</u>
	<u>326,907</u>		<b>Total net worth</b>		<u>326,494</u>

I certify that the accounts set out in this booklet state fairly the financial position of the County Council as at 31 March 2007

Sean Nolan, Deputy Chief Executive and Director of Corporate Resources, 22 June 2007



## Statement of Recognised Gains and Losses

	2005/06	2006/07
	£000	£000
(Surplus) / Deficit on Income and Expenditure Account	975	(17,338)
(Gain) / Loss on valuation of fixed assets	(440)	62,358
Actuarial (Gain) / Loss on Pension Fund assets and liabilities	(294)	(44,607)
<b>Total recognised (gains) / losses for the year</b>	<b>241</b>	<b>413</b>

This statement brings together all the gains and losses of the County Council for the year:

- The surplus or deficit on the Income and Expenditure account is taken from the statement earlier in this Statement of Accounts;
- The gain or loss on valuation of fixed assets is shown in Note 31 and there is more detail in Note 19. It arises from annual revaluations;
- The actuarial gain or loss on the assets and liabilities of the Pension Fund also arises from annual re-measurement, and is shown in more detail in Note 6.

# Cash Flow Statement

2005/06			2006/07		
£000	£000	£000	£000	£000	£000
<b>Revenue Activities</b>					
Cash outflows					
338,027			351,368		
<u>327,625</u>	665,652		<u>329,079</u>	680,447	
Cash inflows					
(145,365)			(13,105)		
(150,987)			(66,693)		
(193,263)			(203,278)		
(100,103)			(332,945)		
(71,193)			(71,571)		
<u>(46,786)</u>	<u>(707,697)</u>		<u>(55,770)</u>	<u>(743,362)</u>	
		(42,045)			(62,915)
<b>Returns on Investments and Servicing of Finance</b>					
Cash outflows					
	16,221			12,111	
Cash inflows					
	<u>(10,235)</u>			<u>(9,068)</u>	
		5,986			3,043
		<u>(36,059)</u>			<u>(59,872)</u>
<b>Capital Activities</b>					
Cash outflows					
	48,880			52,067	
Cash inflows					
(2,494)			(1,369)		
(12,376)			(13,650)		
<u>(3,394)</u>	<u>(18,264)</u>		<u>(2,288)</u>	<u>(17,307)</u>	
		30,616			34,760
		<u>(5,443)</u>			<u>(25,112)</u>
<b>Management of Liquid Resources</b>					
		15,830			25,220
		<u>10,387</u>			<u>108</u>
<b>Financing</b>					
Cash outflows					
19,705			73,135		
<u>-</u>	19,705		<u>-</u>	73,135	
Cash inflows					
(24,750)			(76,112)		
<u>(186)</u>	<u>(24,936)</u>		<u>195</u>	<u>(75,917)</u>	
		(5,231)			(2,782)
		<u>5,156</u>			<u>(2,674)</u>

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Note 26 sets out the detail of the changing 'cash' balances, and Note 39 reconciles the balance on the County Fund Revenue Account to the net cash movement from revenue activities.

# Notes to the Accounting Statements

## 1. Authorisation of Statement of Accounts

These accounts were authorised for issue by Sean Nolan, Deputy Chief Executive and Director of Corporate Resources, 22 June 2007

## 2. Exceptional Item and Prior Year Adjustments

As mentioned in the Foreword above, as part of the change to accounting standards that came into effect from 1 April 2006, the Council has adopted two new accounting policies that impact on the comparative figures for 2005/06 in the Income & Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts;
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.

In addition the elimination of the Asset Management Revenue Account has resulted in some grant income previously shown as credited to that account to now be credited to central services to the public.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 statement of accounts.

	CRA Net Expenditure in 2005/06 Statement of Accounts £'000	Removal of Interest Charges £'000	Redistribution of Govt. Grants and Contrib'ns Deferred Credits £'000	Grant income for Probation & Magistrates Courts debt charges £'000	Recognise Gains & losses on disposal of Fixed Assets £'000	2005/06 Comparative in Income & Expenditure Account £'000
Education Services	286,727	(19,396)	(2,365)			264,966
Social Services	147,169	(861)	(459)			145,849
Roads & Transport Services	38,922	(5,844)	(799)			32,279
Cultural, Environmental & Planning Services	30,457	(437)	(104)			29,916
Central Services:						
Central services to the public	889	(11)	(3)	(269)		606
Corporate and Democratic Core	2,497					2,497
Non-distributed costs	2,998	(4)				2,994
Court Services	670					670
Impact on Net cost of Services	510,329	(26,553)	(3,730)	(269)	-	479,777
Asset Management Revenue Account (External interest payable in 2006/07)	(14,366)	26,553	3,730	269		16,186
Impact on Net Operating Expenditure	495,963	-	-	-	-	495,963

The County Council has one item of exceptional income shown separately under net cost of services as insurance receipt. This relates to income in settlement of the claim for rebuilding costs of part of Tideway School Newhaven which was severely damaged in a fire in April 2005. This income is required by accounting standards to be credited to income but it will be used to help finance the Council's capital programme and accordingly it has been used to increase the contribution to the capital programme reserve, see Note 35.

## 3. Levying Bodies

	2006/07 £000	2005/06 £000
Ashdown Forest Conservators	102	107
Sussex Sea Fisheries	213	203
Environment Agency (flood defence)	121	78
<b>Total</b>	<b>436</b>	<b>388</b>

# Notes to the Accounting Statements

## 4. Trading Accounts

The table below analyses the figure shown in the County Fund Revenue Account as the net effect of trading accounts:

	2006/07			2005/06		
	Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
County Catering Service	350	(327)	23	347	(334)	13
County Transport Group	646	(604)	42	1,181	(1,173)	8
1970 Act (see below)	2,611	(2,617)	(6)	1,924	(1,882)	42
<b>Total</b>	<b>3,607</b>	<b>(3,548)</b>	<b>59</b>	<b>3,452</b>	<b>(3,389)</b>	<b>63</b>

The Local Government Goods and Services Act (1970) authorises local authorities to carry out certain services for other public bodies. The County Council provides various services to bodies including district and parish councils, Sussex Police Authority and East Sussex Fire Authority, under the provisions of section 1 of the above act. The scale of these operations is small in relation to County Council expenditure generally and can be summarised as follows:

	2006/07			2005/06		
	Expend.	Income	Proportion of Related Capacity	Expend.	Income	Proportion of Related Capacity
	£000	£000	%	£000	£000	%
Legal services	370	(370)	19	154	(154)	9
County Records	352	(352)	39	306	(306)	37
School Library Service	113	(113)	24	129	(129)	27
Music Tuition	213	(211)	8	221	(194)	8
Street Lighting	198	(198)	5	59	(59)	1
Lewes Car Parking scheme	383	(383)	21	250	(250)	19
ICT Services	108	(108)	3	104	(104)	2
Financial services	266	(266)	2	308	(308)	5
Property Services	338	(338)	4	122	(122)	5
Other	270	(278)	-	271	(256)	-
	<b>2611</b>	<b>(2617)</b>		<b>1,924</b>	<b>(1,882)</b>	

## 5. Premiums and Discounts for the Early Repayment of Loans

The County Council regularly examines its debt portfolio and, if the opportunity arises, it reschedules loans in order to reduce the overall costs. This may involve the payment of a premium or receipt of a discount. The County Council's policy is to charge these to revenue over the life of the loan being replaced. However in 2006/07 the opportunity was taken to write off to revenue all premiums and discounts incurred before 1 April 2006. This resulted in a net additional charge to the revenue account of £188,000. The transactions during the financial year can be summarised as follows:

	2006/07			2005/06		
	Premiums £000	Discounts £000	Total £000	Premiums £000	Discounts £000	Total £000
Net outstanding at 1 April	643	(107)	536	622	-	622
Paid or received during the year	1,485	(29)	1,456	416	(111)	305
Written off during the year	(749)	108	(641)	(395)	4	(391)
<b>Total</b>	<b>1,379</b>	<b>(28)</b>	<b>1,351</b>	<b>643</b>	<b>(107)</b>	<b>536</b>

## 6. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its employees, the County Council offers retirement benefits. Although these will not actually be payable until employees retire, the council has a commitment to make the payments, and this needs to be disclosed at the time that employees earn their future entitlement.

The Statement of Accounting Policies explains that the County Council participates in two schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. The Teachers' Pension Scheme is administered nationally, and the County Fund Revenue Account contains actual contributions made to the scheme. The Local Government Scheme is administered through the County Council's Pension Fund, and in addition the council has liabilities for discretionary payments for added years, etc., both for local government employees and for teachers. These are charged to the accounts of the County Council, rather than those of the Pension Fund.

## Notes to the Accounting Statements

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against council tax is based on the contributions payable in the year, so the estimated long-term cost of retirement benefits is reversed out of the County Fund Revenue Account after Net Operating Expenditure. The County Council's balance sheet therefore shows an overall liability for the cost of providing pensions in future years, less an apportionment of the assets held by the Pension Fund. This liability is exactly balanced by a statutory Pensions Reserve. The table below analyses the annual movements in both the Pensions Liability and the Pensions Reserve.

	2006/07		2005/06	
	£000	%	£000	%
Liabilities 1 April - share of pension fund	(757,735)		(637,600)	
- unfunded discretionary pensions	(56,960)		(53,546)	
	<u>(814,695)</u>		<u>(691,146)</u>	
Less share of pension fund assets	602,480		482,340	
<b>Net opening liability</b>	<b>(212,215)</b>		<b>(208,806)</b>	
Annual movements in liability:				
Net Cost of Services:				
Current Service Cost	(25,130)		(18,697)	
Past Service Cost	(637)		(543)	
Settlements and Curtailments	(2,603)		(2,136)	
Net Operating Expenditure:				
Interest Cost	(40,138)		(37,376)	
Expected Return on Assets	39,900		34,016	
Adjust for actual amount charged against council tax:				
Employer's contributions	19,994		16,975	
Unfunded retirement benefits payable to pensioners	4,310		4,058	
<b>Net movement on Pensions Reserve</b>	<b>(4,304)</b>		<b>(3,703)</b>	
Actuarial gains and losses:				
Expected and actual return on assets	304	--	84,478	10.4
Gains and losses on scheme liabilities	(40)	--	(8)	--
Changes in demographic and financial assumptions	44,343	5.4	(84,176)	(10.3)
	44,607	5.4	294	0.1
<b>Net liabilities 31 March</b>	<b>(171,912)</b>		<b>(212,215)</b>	
Liabilities 31 March - share of pension fund	(763,654)		(757,735)	
- unfunded discretionary pensions	(55,823)		(56,960)	
	<u>(819,477)</u>		<u>(814,695)</u>	
Less share of pension fund assets	647,565		602,480	
<b>Net closing liability</b>	<b>(171,912)</b>		<b>(212,215)</b>	

The actuarial gains and losses for the previous three years were as follows:

	2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%
Actuarial gains and losses:						
Expected and actual return on assets	18,991	3.9	51,756	12.0	(98,220)	(27.7)
Gains and losses on scheme liabilities	4,903	0.7	(2,266)	0.4	(1,490)	0.3
Changes in demographic and financial assumptions	(103,840)	(15.0)	-	-	-	-
	<u>(79,946)</u>	<u>(11.6)</u>	<u>49,490</u>	<u>10.1</u>	<u>(99,710)</u>	<u>(20.9)</u>

The net liabilities show the underlying commitments that the authority has in the long term to pay retirement benefits. The total liability of £171.9m at 31 March 2007 has a substantial impact on the net worth of the council as recorded in the Balance Sheet. However there are several other points which mitigate the effect of this deficit:

- The interest rate used for discounting the liabilities for future pensions is related to bond yields, and is specified as such for the purposes of this statement. However this is lower than the returns from the actual investments that we manage, and that the actuaries estimate when assessing contributions to the Pension Fund;
- The deficit on the funded element of the scheme will be made good by increased employer's contributions over the remaining working life of the employees, as assessed by the scheme actuary;

## Notes to the Accounting Statements

- The liability for unfunded pensions includes an element relating to pensioners of the former Brighton Polytechnic. The annual payments in 2006/07 were £826,000 (out of the £4.3m for all County Council unfunded pensions shown above), all of which was reimbursed by the Higher Education Funding Council;
- Provision is made within the County Council's budget for the annual payment of the remaining unfunded pension liabilities.

There has been an improvement of £40.3m in the underlying liabilities position in 2006/07. This is largely the result of changes in the financial assumptions on bond yields but also because of the projected impact of pensioners being able to commute some of their annual pension offset by an increase in projected life expectancy. This compares favourably to 2005/06 when a gain of £84m from better than expected returns on assets was counterbalanced by £84m of adverse changes in the demographic and financial assumptions.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

	2006/07	2005/06
Rate of inflation	3.2%	3.1%
Rate of increase in salaries	4.7%	4.6%
Rate of increase in pensions	3.2%	3.1%
Rate for discounting scheme liabilities	5.4%	4.9%

Assets in the Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

	Long Term Return	31 March 2007	31 March 2006
	%	%	%
Equity investments	7.8	66	68
Bonds	4.9	13	12
Other assets	5.8	10	10
Cash	4.9	11	10
<b>Total</b>	<b>-</b>	<b>100</b>	<b>100</b>

At 31 March 2007 the Council owed £2,243,000 to the Pension Fund in respect of employer's and employees' contributions.

Details of the East Sussex Pension Fund, for which a full actuarial valuation was last carried out at 1 April 2004, can be found on pages 38 to 42.

### 7. Teachers' Pension Scheme

In 2006/07 the County Council incurred a total of £16.2m payable to the Teachers' Pension Agency in respect of teachers' pension costs, which represents 13.5% of teachers' pensionable pay. In addition, the County Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. These amounted to £2.0m, representing 1.7% of pensionable pay. These figures compare to an amount of £15.8m payable in 2005/06 (13.5% of pensionable pay), and £1.9m for added years pensions payable to former teachers.

This is a defined benefit scheme, and, although it is unfunded, the Agency uses a notional fund as the basis for calculating the employer's contribution rate. However it is not possible to identify the Council's share of the underlying liabilities of the scheme for its own employees. For the purposes of these accounts it is therefore accounted for as a defined contribution scheme. The County Council is responsible for the costs of additional benefits awarded upon early retirement, and these benefits are fully accrued in the liability included in the Balance Sheet and in Note 6 above.

At 31 March 2007 the County Council owed £2.1m to the Teachers' Pension Agency for employer's and employees' contributions to the Teachers' Pensions Scheme.

### 8. Section 137 of the Local Government Act 1972

This section states that a local authority may incur expenditure which, in its opinion, is in the interests of its area or of part of any area, or all or some of its inhabitants and which is not otherwise authorised. None of the expenditure or income shown in the County Fund Revenue Account was incurred under this section of the 1972 Act.

# Notes to the Accounting Statements

## 9. Publicity

A separate publicity account is kept under the provisions of section 5 of the Local Government Act 1986. The types of publicity which are required to be included relate to:

	2006/07	2005/06
	£000	£000
Staff costs, etc	473	481
Recruitment advertising	1,064	1,145
Other non-exempt advertising	631	883
<b>Total</b>	<b>2,168</b>	<b>2,509</b>

The staff costs above are for employees whose duties relate wholly or mainly to publicity. Staff employed on this basis are in the Public Relations Unit in the Chief Executive's Department.

## 10. Partnership Schemes under Section 31 of the Health Act 1999

In 2006/07 the County Council participated in four partnership schemes involving pooled budget arrangements under this act. On 1 October 2006, the existing four Primary Care Trusts (PCTs) merged to form two PCTs, as follows: Eastbourne Downs PCT and Sussex Downs & Weald PCT became the East Sussex Downs and Weald PCT, whilst the Bexhill and Rother PCT and Hastings and St Leonards PCT became the Hastings and Rother PCT.

- The Learning Disabilities scheme, which commenced in November 2003, comprises the County Council, as host agency, and the East Sussex Downs and Weald PCT and Hastings and Rother PCT;
- The Integrated Community Equipment Service scheme, which started in September 2004, comprises the County Council, as host agency, and the East Sussex Downs and Weald PCT and Hastings and Rother PCT;
- The Community Collaborative Rehabilitation Team scheme, which started in October 2001, comprises the County Council together with Hastings and Rother PCT, as host agency;
- The Carers' Service scheme started in April 2004 and comprises the County Council, as host agency, and the East Sussex Downs and Weald PCT and Hastings and Rother PCT.

The financial transactions of these schemes can be summarised as follows:

Arrangement	2006/07			2005/06		
	Expenditure	Income	ESCC Contribution	Expenditure	Income	ESCC Contribution
	£'000	£'000	£'000	£'000	£'000	£'000
Learning Disabilities	33,763	33,763	22,429	33,040	33,040	21,929
Integrated Community Equipment	2,733	2,733	1,547	2,746	2,746	1,379
Community Collaborative Rehabilitation	1,237	1,305	866	1,190	1,190	836
Carers' Services	477	477	246	490	490	263
<b>Total</b>	<b>38,210</b>	<b>38,278</b>	<b>25,088</b>	<b>37,466</b>	<b>37,466</b>	<b>24,407</b>

## 11. South Downs Joint Committee and South Downs Advisory Forum 2005-2008

The parties to the agreement are Natural England, the County Councils of East Sussex, Hampshire & West Sussex, the unitary council of Brighton & Hove City and the Borough and District Councils of Adur, Arun, Chichester, Eastbourne, East Hampshire, Horsham, Lewes, Mid Sussex, Wealden, Worthing and Winchester City Council.

The parties have powers and responsibilities to preserve and enhance the natural beauty of designated Areas of Outstanding Natural Beauty and work together to secure the preservation and enhancement of the South Downs and East Hampshire Areas of Outstanding Natural Beauty by establishing and supporting a joint committee for this purpose.

Net expenditure for 2006/07 was £2.477m, largely met by £2.006m of funding by the constituent parties of which East Sussex County Council contributed £378,000 (19%).

## Notes to the Accounting Statements

### 12. Members' Allowances

The total amount of allowances and of travelling and subsistence expenses payable in 2006/07 was £842,000 compared to £776,000 in 2005/06.

### 13. Officers' Emoluments

The numbers of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:

Remuneration band	2006/07	2005/06
£50,000-£59,999	71	75
£60,000-£69,999	36	24
£70,000-£79,999	11	11
£80,000-£89,999	9	5
£90,000-£99,999	3	4
£100,000-£109,999	1	2
£110,000-£119,999	1	-
£120,000-£129,999	1	1
£130,000-£139,999	-	-
£140,000-£149,999	-	-
£150,000-£159,999	-	1
£160,000-£169,999	1	-

These figures cover all employees, including local government officers and teachers.

### 14. Transactions with Related Parties

The County Council is obliged to disclose material transactions with related parties, a term which includes central government, the pension fund, some partnerships, as well as any financial relationships with members and chief officers other than payments of salaries, expenses, etc. We disclose these transactions to indicate the extent to which the council might have been constrained in its ability to operate independently, or to have secured the ability to limit another party's ability to bargain freely with the County Council.

The central government provides much of the County Council's funding and determines its statutory framework. Details of transactions with central government are shown in the Revenue Account and the Cash Flow Statement, and in Note 40.

Members of the council have direct control over the council's financial and operating policies. The Council paid £164,000 to a business in which a member of the Council is a partner. The member concerned had registered this interest in the Register of Members' Interests. Other than this, none of the members or chief officers had any interests in any related party transactions during the year. The Register of Members' Interests is held at County Hall, Lewes, and is open to public inspection.

During 2006/07 the Pension Fund had an average balance of £3.0m deposited with the County Council, which paid it £136,000 in interest for these deposits. The County Council charged the Fund £1.3m for expenses incurred in administering the Fund.

The County Council is involved with several partnerships under the Section 31 of the Health Act 1999, as set out in Note 10. One of these health trusts is chaired by a member of the County Council

The County Council acts as sole trustee for the Ashdown Forest Trust (see Note 41). The Council provided treasury management services up to 26 October 2006 to Ashdown Forest Trust on which interest of £4,614.58 was paid during the year. No balances were held by the County Council at 31 March 2007.

The High Weald Unit of the Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Limited (see Note 24) at an annual rent of £24,094.76. In addition the Council acts as Accountable Body for the purposes of grant receipts from SEEDA, under the Area Investment Framework. Woodland Enterprises Limited is entitled to receive such grants and, as a result, the County Council has forwarded grant payments of £175,000 to Woodland Enterprises Limited during the year.



## Notes to the Accounting Statements

### 15. Audit Costs

The table below sets out the fees agreed with the Audit Commission for services rendered during the year. All external audit services were carried out by the Audit Commission.

	2006/07 £000	2005/06 £000
External audit services	166	171
Statutory inspection	15	10
Grant claims and returns	57	52
<b>Total</b>	<b>238</b>	<b>233</b>

### 16. Operational and Finance Leasing

The County Council does not enter into finance leases, which would allow the council to acquire assets at the end of the lease period, but it does use some vehicles and equipment under operating leases, which do not enable the county council to take ownership of the asset. The amount paid under these arrangements in 2006/07 was £1,802,000 compared to a figure of £1,554,000 in 2005/06.

	£000
Leases expiring in:	
2007/08	153
2008/09 to 2012/13	1080
2013/14 onwards	79
	<b>1,312</b>

### 17. Analysis of Statement of Movement in the County Fund Balance

2005/06 £'000		2006/07 £'000	2006/07 £'000	2006/07 £'000
975	Deficit/(Surplus) on Income and Expenditure Account for the year			(17,338)
	<b>1 Items in Income and Expenditure but not chargeable to County Fund</b>			
(28,378)	Depreciation and Impairment of Fixed Assets	(26,206)		
3,729	Amortisation of Government Grants Deferred	4,292		
(2,080)	Deferred Charges	(3,253)		
(3,703)	Withdrawal from Pensions Reserve	(4,305)		
<u>(30,432)</u>			(29,472)	
	<b>2 Items chargeable to County Fund but not included in the Income and Expenditure Statement</b>			
9,428	Statutory provision for repayment of debt	10,266		
11,791	Capital expenditure charged to County Fund	5,482		
<u>21,219</u>			15,748	
	<b>3 Other transfers to / (from) County Fund but not included in the Income and Expenditure Statement</b>			
858	Voluntary Provision for Repayment of Debt	200		
8,365	Transfer to / (from) earmarked reserves	33,113		
<u>9,223</u>			33,313	
<u>10</u>				19,589
<b>985</b>	<b>County Fund (Surplus) / Deficit for the year</b>			<b>2,251</b>

## Notes to the Accounting Statements

### 18. Capital Expenditure and Financing

	2006/07		2005/06	
	£000	£000	£000	£000
<b>Opening Capital Financing Requirement</b>		244,736		235,701
Operational assets	40,294		44,827	
Non-operational assets	7,184		3,016	
Intangible assets	492		1,053	
Deferred charges	3,237		2,064	
<b>Total capital investment</b>	<u>51,207</u>		<u>50,960</u>	
Capital receipts	(4,543)		-	
Government grants	(13,419)		(15,796)	
Other contributions	(2,216)		(4,052)	
Revenue financing	(5,482)		(11,791)	
Total financing other than from loan	<u>(25,660)</u>		<u>(31,639)</u>	
<b>Net investment financed from loan</b>		25,547		19,321
Revenue provision for repayment of loans		(10,466)		(10,286)
<b>Closing Capital Financing Requirement</b>		<u>259,817</u>		<u>244,736</u>

The Capital Financing Requirement represents the County Council's net need to borrow to finance its capital investment, made up of all loan investment in previous years, less amounts set aside each year for the redemption of debt.

For both years shown above the capital investment financed from loan relates entirely to borrowing categorised as being supported by Government financial assistance, through Revenue Support Grant (although this grant, as discussed in the Foreword on page 4, does not in practice provide additional cash on a year-on-year basis).

The Capital Financing Requirement reflects various items in the balance sheet, as shown below:

	31 March 2007	31 March 2006
	£000	£000
Fixed Assets	733,144	775,108
Innovation Centre Investment	224	240
Government Grants Deferred	(88,175)	(78,546)
Capital Contributions Deferred	(15,394)	(13,680)
Capital Financing Account	(51,287)	(55,963)
Fixed Asset Restatement Account	(318,695)	(382,423)
<b>Capital Financing Requirement</b>	<u>259,817</u>	<u>244,736</u>

The County Council accounts fully for depreciation of assets in line with accounting standards in the Income & Expenditure Account, but it is legally obliged to provide for the repayment of a proportion of its Capital Financing Requirement (the Minimum Repayment Provision) in its charge to taxpayers. The reversal of the depreciation charge and the charge for the statutory provision for debt repayment are shown in the analysis of movement in the County Fund balance (Note 17).

### 19. Movements in Asset balances

Operational Assets	Land and Buildings	Vehicles Plant & Equipment	Infra-structure Assets	Community Assets	Total
	£000	£000	£000	£000	£000
Certified valuations	591,496	-	-	-	591,496
Capital expenditure since last valuation	59,703	44,482	164,882	525	269,592
Accumulated depreciation and impairment	(39,685)	(21,680)	(42,973)	-	(104,338)
Net book value at 1 April 2006	<u>611,514</u>	<u>22,802</u>	<u>121,909</u>	<u>525</u>	<u>756,750</u>
Additions	19,722	6,380	14,191	1	40,294
Disposals	(939)	(11)	-	-	(950)

## Notes to the Accounting Statements

Restatements	(63,742)	9	-	-	(63,733)
Transfers (to) / from non-operational	119	-	63	-	182
Depreciation	(14,282)	(4,277)	(6,749)	-	(25,308)
<b>Net book value at 31 March 2007</b>	<b>552,392</b>	<b>24,903</b>	<b>129,414</b>	<b>526</b>	<b>707,235</b>

The closing balance was made up as follows:

Certified valuations	535,504	-	-	-	535,504
Capital expenditure since last valuation	51,899	50,270	179,136	526	281,831
Accumulated depreciation and impairment	(35,011)	(25,367)	(49,722)	-	(110,100)
<b>Net book value at 31 March 2007</b>	<b>552,392</b>	<b>24,903</b>	<b>129,414</b>	<b>526</b>	<b>707,235</b>

The assets above include church aided schools, which are legally owned by the church authorities. Both classes of assets are included in the accounts of the County Council in line with accounting standards, because of the way in which they are used for the purposes of the County Council's services.

<b>Non-Operational Assets</b>	Investment Assets £000	Assets under Construction £000	Assets Awaiting Disposal £000	Total £000
Certified valuations	3,333	-	4,952	8,285
Capital expenditure since last valuation	549	3,136	946	4,631
Accumulated depreciation and impairment	-	-	(116)	(116)
Net book value at 1 April 2006	3,882	3,136	5,782	12,800
Additions	45	7,139	-	7,184
Disposals	-	-	(419)	(419)
Restatements	-	-	1,374	1,374
Transfers (to) / from operational	-	(182)	-	(182)
Depreciation	-	-	(66)	(66)
<b>Net book value at 31 March 2007</b>	<b>3,927</b>	<b>10,093</b>	<b>6,671</b>	<b>20,691</b>

The closing balance was made up as follows:

Certified valuations	3,333	-	5,861	9,194
Capital expenditure since last valuation	594	10,093	948	11,635
Accumulated depreciation and impairment	-	-	(138)	(138)
<b>Net book value at 31 March 2007</b>	<b>3,927</b>	<b>10,093</b>	<b>6,671</b>	<b>20,691</b>

### Intangible Assets

	£000
Opening balance	5,558
Capital payments during year	492
Less written off during year:	
Revenue	(832)
<b>Net book value at 31 March 2007</b>	<b>5,218</b>

In the context of local authority accounting, Intangible Assets represent software licences; these are valued at acquisition cost and written off over the period of the licence.

## Notes to the Accounting Statements

None of the operational, non-operational or intangible assets analysed above are held under finance leases, or under the Private Finance Initiative. Depreciation is calculated on a straight-line basis over the expected life of the asset, on the difference between the book value and any estimated residual value. Depreciation is charged on all classes of assets, with the exception of land and community assets.

The life expectancies of the assets are assessed as follows:

Land	Infinite life expectancy
Buildings	Individually assessed by valuers along with valuation
Vehicles	Individually assessed on acquisition
Computer equipment	Individually assessed on acquisition
Other plant and equipment	20 years unless individual assessment made
Infrastructure	40 years for new roads, otherwise 20 years
Infrastructure land	Infinite life expectancy
Community assets	Not depreciated
Investment	Individually assessed by valuers along with valuation
Investment land	Infinite life expectancy
Assets under construction	Not depreciated
Surplus buildings	Individually assessed by valuers along with valuation
Surplus land	Infinite life expectancy

### 20. Valuation of Fixed Assets

The County Council operates a policy of revaluing its property assets on a rolling 5-year basis, with the aim of revaluing all of its assets within this period. We also review the asset register each year, and, if necessary adjust the value of assets if significant impairment has been identified.

Freehold and leasehold properties regarded by the authority as operational, together with investment assets and assets awaiting disposal, are valued on the basis of open market value for the existing use or where this cannot be assessed because there was no market value, the depreciated replacement cost. This is in line with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Buildings are depreciated in line with the estimated life expectancies of the assets.

Furniture, equipment, plant and machinery values were initially calculated either as an assessed proportion of the valuation of the buildings or, in the case of properties valued at open market value, as an assessed rate per square metre. Together with intangible assets, they are updated in line with capital expenditure, and depreciated in line with the estimated lives of the assets.

Infrastructure and community assets are not revalued. They were initially shown on the basis of outstanding loan debt at 1 April 1994. They are updated in line with capital expenditure, and, in the case of infrastructure, depreciated in accordance with the expected life of the asset created or enhanced.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by Wilks, Head and Eve, an external firm of valuers, on behalf of the County Council.

	Land & Buildings £000	Vehicles Plant & Equipment £000	Infra- Structure Assets £000	Community Assets £000	TOTAL £000
Valued at historical cost	51,899	24,903	129,414	526	206,742
Valued at current value in:					
2006	138,257	-	-	-	138,257
2005	164,255	-	-	-	164,255
2004	57,727	-	-	-	57,727
2003	69,405	-	-	-	69,405
2002	70,849	-	-	-	70,849
<b>Total</b>	<b>552,392</b>	<b>24,903</b>	<b>129,414</b>	<b>526</b>	<b>707,235</b>

## Notes to the Accounting Statements

With the one exception shown below, non operational land and buildings are mostly valued at the same time and in the same way, as operational assets, and the following statement shows the progress of these assets:

	Investment £000	Assets under Construction £000	Assets Awaiting Disposal £000	Total £000
Valued at historical cost	594	10,093	23	10,710
Valued at current value in:				
2006	-	-	2,819	2,819
2005	-	-	-	-
2004	3,333	-	1,559	4,892
2003	-	-	809	809
2002	-	-	536	536
Valued by Sotheby's, 2004	-	-	925	925
<b>Total</b>	<b>3,927</b>	<b>10,093</b>	<b>6,671</b>	<b>20,691</b>

When the County Council sold Bentley Wildfowl Centre and Motor Museum during 2004/05, it retained ownership of the contents, and the value of £925,000 shown above represents a valuation of these assets carried out by Sotheby's in March 2004.

### 21. Assets Held

An analysis of the assets owned and leased is given below

	31 March 2007 (numbers)	31 March 2006 (numbers)
Schools	194	194
Tutorial Units	3	3
Maintained Youth and Community Centres	15	15
Sports Centres	1	1
Family and Children's Establishments	15	15
Children's Centres	8	5
Other Education Buildings	5	6
Travellers' Sites	5	5
Principal Roads	346 km	346 km
Other Roads	2,956 km	2,947 km
Green Lanes	7 km	56 km
Highways Depots and Sub Depots	6	7
Vehicles and Plant (leased)	841	880
Libraries	26	26
County Records buildings	6	6
Community Learning Centres	2	2
County Offices	8	10
Surplus Houses	25	24
Surplus Land	36 hectares	34 hectares
Buildings held for development schemes	23	20
Land held for development schemes	42 hectares	52 hectares
Country Parks	3	3
Smallholdings (declared surplus)	63 hectares	63 hectares
Registrars' Offices	4	4
Elderly Residential Establishments	11	11
Elderly Day Centres	9	10
Establishments for People with Disabilities	31	32
Other Social Services' Centres and Patch Offices	5	5

## Notes to the Accounting Statements

### 22. Future Capital Expenditure

The County Council plans to spend £76.9m on improving its assets in 2007/08. This amount includes £19.2m on schemes starting in 2007/08. Total commitments for 2007/08 are £12.2m of which those over £100,000 are:

Scheme	Total future cost £m	Commitment 2007/08 £m
Adult Social Care		
Conquest Centre	1.0	0.5
Beeching Park	0.7	0.3
Feasibility Studies	0.1	0.1
Corporate Resources		
NGN	2.1	0.7
CBOSS	0.5	0.2
Children's Services		
Redevelopment of Old Roar	0.4	0.3
Children's centres	6.4	1.4
Grove Park School	2.8	1.7
Heathfield Community College	1.0	0.4
Wivelsfield Primary	2.4	0.8
Rye Area Primary Schools	6.1	0.2
Schools Access	2.4	0.1
Stafford Junior School	0.0	0.1
Temporary Accommodation	1.2	0.4
Tideway Community School	10.3	0.6
Modernisation Programme	2.7	0.4
Schools Access Initiative	1.9	0.1
Peacehaven Community School	0.3	0.2
Transport and Environment		
Bexhill and Hastings Link Road	3.1	0.7
Integrated transport package	4.4	0.7
Rights of way – Bridge Replacement	0.4	0.1
Local safety Schemes	2.0	0.1

### 23. Deferred Charges

Deferred Charges represent capital expenditure either on fees for feasibility studies for capital schemes which may or may not come to fruition, or expenditure on assets which are not owned by the County Council (e.g. adapting the homes of people with disabilities). Deferred Charges are written off in the year in which the expenditure is incurred. However the financing cost, in terms of interest and Minimum Repayment Provision, are deferred over a number of years. In 2006/07 £3,237,000 of the County Council's capital investment related to Deferred Charges, and all was written off in the year the expenditure was incurred. The investment in the Sussex Innovation Centre, originally of £400,000 was also made from capital resources. It is being written off over a period of 25 years in line with the legal agreement under which the shares were acquired.

### 24. Investments

The County Council has a 19% interest in Woodland Enterprises Limited, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The net assets of the company are £932,000. There was no deficit or surplus in 2005/06, the last reported trading year. The legal liability of the County Council is limited to £1. The County Council also has an investment in the Sussex Innovation Centre (see Note 23 above).

The Local Government Act 2003 permits local authorities to invest surplus cash balances for periods longer than one year as part of an Annual Investment Strategy. An investment in the region of £45m was made for a period between one to five years (included in the accounts) has been reclassified as long term investment.

### 25. Debtors

	31 March 2007 £000	31 March 2006 £000
Government Grants and VAT	4,820	5,147
Sundry debtors	25,450	26,099
	<u>30,270</u>	<u>31,246</u>

## Notes to the Accounting Statements

Adjustment for bad debts	(308)	(552)
	<u>29,962</u>	<u>30,694</u>

### 26. Cash and Bank Balances

	31 March 2007 £000	31 March 2006 £000	Movement £000
Cash in hand	162	266	(104)
Imputed cash adjustment for South Downs and primary care trusts	2,915	1,207	1,708
Accrued balance at bank and for third parties	(18,849)	(19,278)	1,070
<b>Total</b>	<b>(15,772)</b>	<b>(17,805)</b>	<b>2,674</b>

Notes 10 and 11 set out some details of the arrangements under which the County Council 'hosts' the finances of pooled arrangements for Pooled Budgets (with primary care trusts) and the South Downs Joint Committee. These arrangements relate to a number of different organisations and it is necessary to allocate their balance sheets between the different participants. The result of adjusting the balances for debtors, creditors, etc. is to create an imbalance, which represents the difference between the cash actually held by the County Council and the share of the arrangements' cash which is eventually allocable to the Council. This difference is recorded above as 'imputed cash'.

The County Council manages and invests its cash balances with the aim of achieving a balance at the bank as close as possible to zero. As it manages cash balances on behalf of the East Sussex Fire and Rescue Service, the East Sussex Pension Fund, and some trust funds alongside its own balances, the County Council allows its own balances to become overdrawn if there is cash held in its own bank accounts on behalf of the other authorities. Our accounts also show an overdrawn balance because cheques and BACS payments are recorded when they are drawn, rather than when they are presented at the bank. The overdrawn balance shown above was made up as follows:

	31 March 2007 £000	31 March 2006 £000
East Sussex Fire and Rescue Service	(8,054)	(7,957)
East Sussex Pension Fund	(2,254)	(5,407)
Trust Funds	(816)	(488)
Unpresented cheques, etc	(7,725)	(5,427)
<b>Accrued balance at bank and for third parties</b>	<b>(18,849)</b>	<b>(19,279)</b>

The pooled bank balances at 31 March 2007 includes £17.2m (£11.5m at 31 March 2006) of bank accounts operated by schools under local management arrangements.

### 27. Creditors

	31 March 2007 £000	31 March 2006 £000
Central Government – Inland Revenue and Teachers' Pensions	9,151	8,603
East Sussex Pension Fund	2,243	2,022
Other creditors and accruals	53,560	49,713
<b>Total</b>	<b>64,954</b>	<b>60,338</b>

### 28. Borrowing Analysis

	31 Mar 2007 £000	31 Mar 2006 £000	Movement £000
Loans: Public Works Loan Board	253,932	250,955	2,977
Euro Hypo	6,450	6,450	-
Total long term borrowing	260,382	257,405	2,977
Short term borrowing	219	414	(195)
<b>Total</b>	<b>260,601</b>	<b>257,819</b>	<b>2,782</b>

Long term borrowing serviced by the County Council analysed by maturity

Maturing between 1 to 2 years	1	1
Maturing between 2 to 5 years	8,899	8,899

## Notes to the Accounting Statements

Maturing between 5 to 10 years	20,428	20,428
Maturing in more than 10 years	231,054	228,077
<b>Total</b>	<b>260,382</b>	<b>257,405</b>

### 29. Provisions

	Opening Balance £000	Receipts in Year £000	Payments in Year £000	Closing Balance £000
Adult Social Care legal costs	500	-	(205)	295
Independent Insurance	94	-	(30)	64
Insurance claims	2,376	743	-	3,119
Municipal Mutual Insurance	79	2	-	81
Redundancies	928	-	(681)	247
Section 117 liabilities	1,786	-	(986)	800
Waste Tonnage	576	-	(576)	-
Learning Disability Care Costs	-	223	-	223
<b>Total</b>	<b>6,339</b>	<b>968</b>	<b>(2,478)</b>	<b>4,829</b>

The insurance provision for Municipal Mutual Insurance was set up following the cessation of business by this company, who had been the County Council's insurers during 1992/93. The balance at 31 March 2007 represents an estimate of the liabilities at that date. The exact amount will not be known until the outstanding claims are settled.

The Independent Insurance Company had been our insurers from 1993/94 to 1995/96. They ceased business during 2001/02, and the provision represents an estimate of the outstanding liabilities at 31 March 2007. However it will be several years before the County Council's exact liability can be established.

The provision for insurance claims represents an estimate of the amounts which the County Council will have to pay for claims arising before 31 March 2007, but where the exact amount and the date of payment are uncertain.

Between 1993 and 2000, the County Council charged clients for the provision of services under Section 117 of the Mental Health Act 1993. A court case subsequently established that it was illegal to make such charges. The County Council is obliged to repay these charges, together with interest. However it is uncertain how much will be repaid and when, and the provision has been set up to allow for the future repayment of all outstanding cases.

The provision for legal costs relates to a case where the County Council is liable for the costs, but the amount and settlement date have yet to be determined.

The Waste Tonnage dispute with a waste contractor has now been settled.

Learning Disability Care Costs is a provision in respect of care costs pending the outcome of contract disputes.

### 30. Government Grants Deferred and Capital Contributions Deferred

	2006/07		2005/06	
	Grants £000	Contributions £000	Grants £000	Contributions £000
Grants and contributions applied to capital investment	12,778	2,216	15,796	4,051
Credited to the Service Revenue Accounts	(3,790)	(501)	(3,349)	(380)
Total movement in reserve	8,988	1,715	12,447	3,671
Balance brought forward at 1 April	78,546	13,679	66,099	10,008
<b>Balance carried forward at 31 March</b>	<b>87,534</b>	<b>15,394</b>	<b>78,546</b>	<b>13,679</b>

The balances on these accounts represent the amounts of government grants and other contributions towards the cost of fixed assets. They are accumulated as grants, and contributions are used to finance expenditure, and written down in line with depreciation and disposals.

### 31. Analysis of Movements in Reserves

	Balance Brought Forward £000	(Gains) / Losses £000	Transfers between Reserves £000	Balance Carried Forward £000
Fixed Asset Restatement Account	(382,423)	62,358	1,370	(318,695)
Capital Financing Account	(55,963)	-	4,676	(51,287)



## Notes to the Accounting Statements

Usable Capital Receipts Reserve	(5,264)	-	3,174	(2,090)
Pension Reserve	212,215	(44,607)	4,304	171,912
Earmarked Reserves	(77,864)	-	(33,113)	(110,977)
County Fund balances	(17,608)	(17,338)	19,589	(15,357)
<b>Total net worth</b>	<b>(326,907)</b>	<b>413</b>	<b>-</b>	<b>(326,494)</b>

This note analyses the movement in each reserve, and the total gains and losses shown above equals the total shown in the Statement of Recognised Gains and Losses. The movements on individual reserves are shown in more detail in the notes below.

### 32. Fixed Asset Restatement Account

	2006/07 £000	2005/06 £000
Gains/(losses) on revaluation of fixed assets	(62,358)	(1,046)
Amounts written off fixed assets balances for disposals	(1,370)	(546)
Net movement in reserve	(63,728)	(1,592)
Balance brought forward at 1 April	382,423	384,015
<b>Balance carried forward at 31 March</b>	<b>318,695</b>	<b>382,423</b>

The Fixed Asset Restatement Account represents the difference between the current valuation of assets as shown in the Balance Sheet, and their historical cost. The reserve is written down by the book value of assets as they are disposed of, and debited or credited with the deficits or surpluses from revaluations.

### 33. Capital Financing Account

	2006/07 £000	£000	2005/06 £000	£000
<b>Capital receipts set aside</b>				
Usable receipts applied		4,543		-
<b>Revenue resources set aside</b>				
Capital expenditure financed from revenue	5,482		11,791	
Deferred Charges and Investment written down	(3,252)		(2,080)	
Grants and contributions deferred written down	4,292		3,729	
Provision for loan repayment, excluding depreciation	(15,741)		(18,092)	
		(9,219)		(4,652)
Total movement in reserve		(4,676)		(4,652)
Balance brought forward at 1 April		55,963		60,615
<b>Balance carried forward at 31 March</b>		<b>51,287</b>		<b>55,963</b>

The Capital Financing Account contains:

- The amount of capital expenditure financed from revenue and from capital receipts;
- The difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans;
- The amount released annually from the Government Grants Deferred Account (see Note 30 above);
- The amounts written down annually from Deferred Charges and from the investment in the Sussex Innovation Centre.

### 34. Usable Capital Receipts Reserve

	2006/07 £000	2005/06 £000
Amounts receivable during the year	1,369	2,032
Amounts applied to finance new capital investment	(4,543)	-
Total increase/(decrease) in realised capital resources	(3,174)	2,032
Balance brought forward at 1 April	5,264	3,232
<b>Balance carried forward at 31 March</b>	<b>2,090</b>	<b>5,264</b>

## Notes to the Accounting Statements

Capital receipts are obtained either from sale of fixed assets such as land and buildings, or from Government grants and other contributions towards capital schemes. Such receipts can legally only be applied to reduce debt, or, in most cases, to support new capital schemes. The balance at 31 March is available to support capital expenditure in future years.

### 35. Earmarked Reserves

	Opening Balance £000	Receipts in Year £000	Payments in Year £000	Closing Balance £000
Delayed Transfer of Care	432	-	(432)	-
ASC Business Transformation Risk	-	942	-	942
Capital Programme Reserve	20,707	17,737	-	38,444
CBOSS Development	244	238	-	482
Chief Executive ICT Refresh	65	65	(26)	104
Community Partnership	483	-	(303)	180
Corporate Waste Reserve	31,946	13,731	(1,689)	43,988
CSD ICT Refresh	-	54	-	54
Deferred Payments Reserve	405	-	-	405
Departmental Budget Reserve	3,462	4,276	-	7,738
Education Lotteries	14	-	-	14
e-Government Reserve	2,621	459	(2,336)	744
High Weald Reserve	-	46	-	46
Insurance Reserve (from 1/4/97)	6,762	2,162	(1,821)	7,103
Insurance Reserve (to 31/3/97)	870	231	(183)	918
Invest To Save	-	663	-	663
Leisure Centres	222	18	(31)	209
Map Digitisation	110	-	(6)	104
On street car parking	408	14	(386)	36
Ouse Valley Commuted Maintenance	85	-	(12)	73
Pension Contributions	2,008	97	-	2,105
PFI Asset Reserve	2,819	593	-	3,412
Redundancies	1,487	890	-	2,377
Restructuring	485	-	(485)	-
Strategic Change	1,368	-	(1368)	-
Strategic Economic Development	300	-	(10)	290
Transport & Environment ICT Refresh	46	-	(30)	16
Winter Maintenance	515	15	-	530
<b>Total</b>	<b>77,864</b>	<b>42,231</b>	<b>(9,118)</b>	<b>110,977</b>

The purpose of each reserve shown above is set out below:

Delayed Transfer of Care	To meet the potential cost of fines for delayed discharges of Social Services clients.
ASC Business Transformation Risk	To meet the potential unplanned costs arising from the transformation business processes within Adult Social Care.
Capital Programme	To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts. It also smoothes the impact of slippage in capital payments and phasing issues on other reserves.
CBOSS Development	To meet the cost of procuring and developing the new arrangements for back office systems and services being implemented from 2004/05.
Chief Executive ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in Chief Executive's Department.
Community Partnership	To support initiatives that address crime and the fear of crime, and to support initiatives that can increase the capacity of local communities to be involved in activities that encourage improved quality of life, well being, engagement and self-determination.
Corporate Waste	To smooth the large year-on-year budget increases that will be needed to finance the Waste PFI project over the whole life of the service.
CSD ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in Children's Services.
Deferred Payments	This relates to Adult Social Care cases where residential services may be provided to clients who have assets but no immediate funds: the debt is deferred until their property is eventually sold. The Council receives a government grant towards the cost of deferred income, and the reserve is designed to smooth out the cash flow difficulties associated with

## Notes to the Accounting Statements

	this practice.
Departmental Budgets	To enable net underspends by departments to be carried forward for spending in the next financial year in accordance with Financial Regulations. Underspends often reflect situations where expenditure has been committed, but not actually incurred, at the year end.
Education Lotteries	For sports facilities developed using lottery funding and run by schools.
e-Government	To help smooth planned spending to meet the stringent Government targets for e-Government, to provide for replacing equipment associated with the Peoples' Network, and to smooth the incidence of expenditure on the e-Government programme.
High Weald Reserve	To provide for future spending commitments in the High Weald Area of Outstanding Natural Beauty.
Insurance (from 1/4/97)	To cater for internal insurance and risk management on County Council services. Self Insurance through this reserve is more economical than external insurance for these classes of risks.
Insurance (pre 1/4/97)	This reserve was used for the same purposes as the current insurance reserve, but it relates to the pre-reorganisation County Council, and some may eventually be attributable to Brighton and Hove City Council.
Invest To Save	To provide initial funding for projects designed to save the Council money over future years.
Leisure Centres	To enable the County Council to meet its obligations under the lease agreement to keep premises in good repair in accordance with a 5-year plan.
Map Digitisation	Investment in making available historical records available in electronic form, including through the ESCC website.
On-Street Car Parking	Use of 'surpluses' is restricted by legislation. This reserve can be used to cover deficits from earlier years, provision of off-street parking, highway maintenance and passenger transport.
Ouse Valley	To fund the ongoing maintenance costs associated with the landscape project at Newhaven Ouse Estuary.
Pension Contributions	To smooth the financial impact of the expected increase in pension contribution rates as a result of longer life expectancies for pensioners.
PFI Assets	To build up a notional fund to reflect the cost of purchasing the assets from the provider at the end of the contract. The amounts represent the payments made to the contractor which relate to the asset value. The amount in the reserve is exactly matched by the PFI prepayment account.
Redundancies	To provide funds for the one-off costs of severance pay, enabling ongoing savings and efficiencies to be made.
Restructuring	To meet the costs of restructuring, determined by the Council's overall drive to become a modern and effective council.
Strategic Change	To facilitate transformational change within the County Council, particularly through the use of I.T. and organisational development.
Strategic Economic Development	To provide support for County Council projects that promote economic development.
Transport & Environment ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in Transport & Environment Department.
Winter Maintenance	To smooth the financial impact of variations between years in winter weather on road maintenance.

### 36. Contingent Liabilities and Assets

There is a contingent liability relating to a potential dispute with a contractor, for £800,000 relating to a capital building contract. While the County Council believes that the claim can be defended, it is recognised that in achieving best value some form of settlement may be necessary.

### 37. Post Balance Sheet Events

No events have occurred after the end of the financial year that have a material impact on these accounts.

# Notes to the Accounting Statements

## 38. Private Finance Initiative

The County Council has a contract with Peacehaven Schools Ltd (PSL) under the Private Finance Initiative to provide a new secondary school and replace or refurbish four primary schools in Peacehaven and Telscombe Cliffs. The first school became operational in January 2000.

Based on actual inflation to 31 March 2007 and assuming a 2.5% inflation rate for the remaining life of the contract to 2026, the County Council has an undischarged liability of £86m.

The County Council in conjunction with Brighton and Hove City Council has entered into a 25-year agreement for the provision of an integrated waste management service with South Downs Waste Services Ltd. Based on a projected annual inflation rate of 2.5% the undischarged liability over the remaining 21 years of the contract is a projected £739m.

## 39. Reconciliation of Income and Expenditure Account to Revenue Activities Cash Flow

	£000	£000
Deficit / (Surplus) for the year		(17,338)
Interest		(3,043)
Non-cash transactions		
Depreciation	(26,206)	
Government Grants Deferred	4,292	
Deferred Charges	(3,253)	
Gain on sale of fixed assets	0	
Provisions set aside during year	1,510	
Pensions Reserve	<u>(4,305)</u>	(27,962)
Changes in accruals		
Increase / (decrease) in Long term debtors	494	
Increase / (decrease) in Stocks and work in progress	(27)	
Increase / (decrease) in Payments in advance	532	
Increase / (decrease) in interest premiums paid in advance	815	
Increase / (decrease) in LATS-related accruals	111	
Increase / (decrease) in Debtors	261	
(Increase) / decrease in Creditors	(6,169)	
(Increase) / decrease in Income in advance	<u>(10,589)</u>	(14,572)
Net Revenue Activities		<u>(62,915)</u>

## 40. Government Grants

### Grant income included in Revenue Account and Cash Flow Statement

	2006/07			2005/06		
	Revenue Account £000	Adjust for Accruals £000	Cash Flow Statement £000	Revenue Account £000	Adjust for Accruals £000	Cash Flow Statement £000
Department for Education and Skills	(275,882)	(593)	(276,475)	(48,795)	(1,226)	(50,021)
Department for Transport	(1,189)	231	(958)	(1,430)	(99)	(1,529)
Department of Health	(19,252)	(755)	(20,007)	(30,942)	(384)	(31,326)
Department for Communities & Local Govt.	(30,463)	250	(30,213)	(13,974)	74	(13,900)
Department for Environment Food and Rural Affairs	(3,318)	2,262	(1,056)	(3,084)	2,397	(687)
Home Office	(1,899)	(54)	(1,953)	(1,311)	(265)	(1,576)
Other Government departments	(2,292)	9	(2,283)	(1,646)	582	(1,064)

## Notes to the Accounting Statements

<b>Total</b>	<b>(334,295)</b>	<b>1,350</b>	<b>(332,945)</b>	<b>(101,182)</b>	<b>1,079</b>	<b>(100,103)</b>
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### Adjustment for Accruals at 31 March 2007

	Debtors £000	Income in Advance £000	Creditors £000	Net total £000
Balance 1 April	2,471	(2,616)	(396)	(541)
Balance 31 March	2,462	(3,781)	-	(1,319)
Net Difference	(9)	(1,165)	396	(778)
Adjust for LATS Grant				2,128
Net adjustment				1,350

As explained in the Statement of Accounting Policies (paragraph 21), under the Landfill Allowances Trading Scheme the Government allocates allowances, which are accounted for as expenditure on the allowances matched by a Government Grant. As no money changes hands, both the grant and the corresponding expenditure are excluded from the Cash Flow Statement.

The very large increase in grant from the Department of Education and Skills is due to the switch of Government support from general grant to the new Dedicated Schools Grant as explained on page 2 of the foreword and Note 43 below.

### 41. Trust Funds

The County Council administers various funds for the benefit of individuals or groups of people. The income of such funds is not available for general use and the accounts are kept separate from those of the Council.

The term 'trust fund' includes money held on behalf of individuals, such as Social Services clients: in these cases the holding is virtually a personal bank account and is not invested by the County Council. The County Council acts as sole trustee for the following trusts:

- Music: for the provision of tuition in music;
- Robertsbridge Youth Centre: interest from money raised by the sale of land at the youth centre, applied towards youth services in Robertsbridge;
- Lewes Educational Charity: interest from money raised by the sale of former educational premises, applied towards education in Lewes and the surrounding area;
- How Scholarship: assistance to individuals in the Borough of Hastings;
- Wright Legacy: for the purchase of particular classes of books for Eastbourne Library.

The transactions of the funds during the year are summarised below:

	Opening Balance £000	Income in Year £000	Expenditure in Year £000	Closing Balance £000
<b>Sole trustee funds</b>				
Music Trust	765	13	(18)	760
Robertsbridge Youth Centre	125	6	(31)	100
Lewes Educational Charity	43	3	(3)	43
How Scholarship	3	-	-	3
Wright Legacy	2	-	-	2
<b>Total sole trustee funds</b>	<b>938</b>	<b>22</b>	<b>(52)</b>	<b>908</b>
<b>Ashdown Forest Trust</b>	<b>1,399</b>	<b>69</b>	<b>(57)</b>	<b>1,411</b>
<b>General trust funds</b>	<b>102</b>	<b>5</b>	<b>-</b>	<b>107</b>
Bequests	107	3	-	110
Voluntary funds	18	19	(24)	13
Comforts funds	36	35	(28)	43
Safe Custody	311	790	(472)	629
<b>Total trust funds</b>	<b>2,911</b>	<b>943</b>	<b>(633)</b>	<b>3,221</b>

## Notes to the Accounting Statements

### 42. Euro Costs

The County Council has reviewed the impact of the euro on its ongoing operations and financial systems. Until a decision is made as to whether the UK should adopt the euro, any expenditure on euro activities, which would be primarily on research and strategic planning, will be met from within existing budgetary provision.

The County Council's core financial systems are fully Euro-compliant.

### 43. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated School Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the School Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual School, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately. The council is able to supplement the school budget from its own resource and this year programmed an additional £0.9m spending by schools.

Details of the deployment of the Dedicated School Grant:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the authority's budget	22,667	215,793	238,460
Adjustment to finalised grant allocation	(1,375)	-	(1,375)
DSG receivable for the year	21,292	215,793	237,085
Actual expenditure for the year	(19,824)	(217,321)	(237,145)
(Over)/underspend for the year	1,468	(1,528)	(60)
Planned top-up funding for ISB from council resources	912	-	912
Use of schools balances brought forward	-	1,528	1,528
(Over)/underspend from prior year	-	-	-
<b>(Over)/underspend carried forward to 2007/08</b>	<b>2,380</b>	<b>-</b>	<b>2,380</b>

# East Sussex Pension Fund Accounts

2005/06			2006/07	
£000	£000	See Note	£000	£000
<b>Contributions and Benefits</b>				
Contributions receivable				
50,497		7	59,156	
19,643			21,823	
	70,140			80,979
	15,495			7,869
	<u>85,635</u>			<u>88,848</u>
Transfers in				
		7		
52,021			55,165	
7,750			14,190	
	59,771			69,355
Payments to and on account of leavers				
125			50	
8,308			4,974	
	8,433			5,024
	1,369	10		1,255
	<u>69,573</u>			<u>75,634</u>
	16,062			13,214
<b>Net Additions / (withdrawals) from dealings with members</b>				
<b>Returns on investments</b>				
	33,903			41,448
	281,390	4		61,419
	(3,230)	10		(3,792)
	<u>312,063</u>			<u>99,075</u>
	328,125			112,289
<b>Net Increase/(Decrease) in fund during the year</b>				
	1,267,656			1,595,781
	<u>1,595,781</u>			<u>1,708,070</u>
<b>Closing net assets of the scheme</b>				

# East Sussex Pension Fund Accounts

2005/06			2006/07			
£000	£000	See Note			£000	£000
<b>Investments at market value</b>						
81,403		5	Fixed interest securities	- Public Sector	90,432	
<u>92,818</u>	174,221			- Other	<u>102,021</u>	192,453
483,908			Equities	Listed	480,540	
350,538				- UK	359,394	
<u>19,468</u>	853,914			- Overseas	<u>32,942</u>	872,876
0				- Overseas	0	
<u>19,203</u>	19,203		Index linked securities	-Public Sector	<u>21,863</u>	21,863
161,970				-Other	177,149	
<u>220,225</u>	382,195		Unit trusts	- Property	<u>226,938</u>	404,087
	<u>155,731</u>			- Other		
			Cash instruments			<u>210,279</u>
	1,585,264					1,701,558
<b>Net current assets and liabilities</b>						
Settlements in transit at 31 March						
98,001			Sales		9,750	
<u>(98,054)</u>			less Purchases		<u>(13,960)</u>	
	(53)					(4,210)
13,075			Debtors		13,597	
<u>(2,505)</u>			less Creditors		<u>(2,875)</u>	
	<u>10,570</u>					<u>10,722</u>
	<u>1,595,781</u>					<u>1,708,070</u>

## Treasurer's Certificate

I certify that the accounts set out in this booklet state fairly the financial position of the East Sussex Pension Fund at 31 March 2007

Sean Nolan  
Deputy Chief Executive and  
Director of Corporate Resources  
22 June 2007



# Notes to the East Sussex Pension Fund Accounts

## 1. Introduction

The County Council administers the fund from which pensions are paid to former employees of the County Council, Brighton and Hove City Council, District Councils in East Sussex and certain other bodies. Separate pension arrangements are made for teachers and fire-fighters.

The Fund is managed under the direction of the Pension Fund Investment Panel which comprises three members of the County Council, two members of Brighton and Hove City Council and a nominee of the East Sussex Borough and District Councils. The Panel meets quarterly to discuss investment strategy, receives reports from the investment managers, and also holds an Annual Strategy Meeting.

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

- Collection of investment income;
- Arranging for the custody of the schemes assets in compliance with the custody agreement;
- Providing CRD Finance with monthly valuations of the schemes assets and details of all transactions;
- Responsibility for cash management and investing the daily cash balances in a 'Triple A' rated cash pool;
- Operating a stock lending programme (see Note 9 to the accounts).

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Amendment Regulations 1998 included a requirement for LGPS administering authorities to prepare, maintain and publish Statements of Investment Principles. The statement also covers the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights, including voting rights, attaching to investments.

The Code of Myners 10 Principles Adherence is included at appendix G to the main statement of Investment Principles. The Funding Strategy Statement (FSS) of the East Sussex Pension Fund was issued after consultation with the Fund's employers and investment advisers and is effective from 31 March 2005. East Sussex County Council, as the administering authority, was required to publish by 31 March 2006 its approach to pension scheme management (governance of the Investment Panel) and scheme communication. Copies of these policy statements and the annual accounts report are available from the Deputy Chief Executive and Director of Corporate Resources.

## 2. Accounting Policies

The accounting policies for the Pension Fund accounts are the same as those used for the County Council, as set out on pages 10 to 12. The only points which particularly relate to the Pension Fund are:

- Foreign income is translated into sterling at the exchange rate at the time of the transaction;
- The expenditure of the fund includes all valid benefit claims arising during the financial year.

We show the investments held by the Pension Fund at the market price at 31 March 2007. The sources of valuation are as follows:

- All UK investments traded within the Stock Exchange Electronic Trading System (SETS) are valued at the last price at which they were traded in SETS;
- Investments held as units in a fund are valued at the latest available price before the end of the year;
- The Private Equity investments are valued quarterly in arrears and are shown in the net assets statement as Equities - Unlisted Overseas;
- All other listed UK securities are valued at mid price;
- Investments held in foreign currencies are valued at the appropriate basis, and their values are translated into sterling according to the exchange values as at 31 March 2007;
- Brokers commissions and other costs of acquisition are included in the cost of investments purchased.

The Fund's financial statements do not take account of its liabilities to pay pensions and other benefits after the end of the financial year 2006/07.

## 3. Actuarial Position

The latest actuarial valuation of the Fund was carried out as at 31 March 2004, and work is underway on the current valuation as at 31 March 2007. The purpose of the valuation is to calculate the contribution rates required to be made by each employer participating in the Fund which together with investment growth will be sufficient to meet the Fund's future liabilities. The 2004 valuation shows the Fund has a past service deficit, being 84% funded in respect of past liabilities. A recent survey of valuation results for county council funds carried out by the Society of County Treasurers has shown that all county council funds are now in deficit. East Sussex funding of 84% compares with an average of 73% for all county council funds and places East Sussex in second position out of thirty five funds. The contribution rates paid by each employer participating in the fund for 2006/2007 are shown at Note 6.

## 4. Fund Managers

The market value of the investments as at 31 March was:

Manager	2005/06		2006/07	
	£m	%	£m	%
UBS	520.2	32.9	546.4	32.2
Capital	448.5	28.4	434.1	25.5
Fidelity	317.3	20.1	331.9	19.5
Prudential M&G	156.7	9.9	176.3	10.4
Harbourvest	7.2	0.5	14.2	0.8
Adams Street Partners	13.9	0.9	18.8	1.1
Northern Trust Cash	116.1	7.3	177.6	10.5
	<b>1579.9</b>	<b>100.0</b>	<b>1699.3</b>	<b>100.0</b>

The overall annual rate of return achieved by the Fund is 6.5% compared with the average return achieved by local authority funds of 7.0%. This was the 62nd best performance of the 90 local authority funds.

## 5. Analysis of Investments

2005/06      2006/07

# Notes to the East Sussex Pension Fund Accounts

	£m	£m
UK	984.5	1,070.5
Foreign	595.4	628.8
	<b>1,579.9</b>	<b>1,699.3</b>
Cash held by ESCC	5.4	2.3
Settlements in Transit	(0.1)	(4.2)

During 2006/07 the Fund purchased £498.7m assets and sold £497.7m assets.

The following two holdings each represent over 5% of the total value of the net assets of the scheme:

	£m	%
UBS Global Optimal Fund	134.7	7.9
Prudential Property Fund	94.2	5.6

## 6. Authorities in the fund

### Contribution Rates For 2006/07

#### Administering Authority

East Sussex County Council	16.6%
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#### Scheduled Bodies

Brighton & Hove City Council	15.8%
Eastbourne Borough Council	19.3%
Eastbourne Buses	26.7%
Hastings Borough Council	19.5%
Lewes District Council	18.0%
Rother District Council	19.9%
Wealden District Council	18.2%
East Sussex Fire & Rescue Service	17.0%
Battle Town Council	15.4%
Bexhill 6th Form College	13.4%
City College Brighton	15.8%
Brighton Hove & Sussex 6th Form College	13.4%
Shoreham Airport	20.5%
Hastings & St Leonards Education Action Zone	16.0%
Conservators of Ashdown Forest	15.4%
Crowborough Town Council	15.4%
East & West Sussex Valuation Tribunal	15.4%
Sussex Probation Board	21.0%
Sussex Downs College	12.9%
Forest Row Parish Council	15.4%
Hailsham Town Council	15.4%
Hastings College of Arts & Technology	13.5%
Heathfield & Waldron Parish Council	15.4%
Lewes Town Council	15.4%
Newhaven Town Council	15.4%
Peacehaven Town Council	15.4%
Plumpton College	13.4%
Polegate Town Council	15.4%
Ringmer Parish Council	15.4%
Rye Town Council	15.4%
Seaford Town Council	15.4%
Sussex Sea Fisheries District Committee	15.4%
Telscombe Town Council	15.4%

Uckfield Town Council	15.4%
University of Brighton	14.1%
Varndean 6th Form College	13.4%
Willingdon & Jevington Parish Council	15.4%
SEERA	12.3%
Chailey Parish Council	13.3%

#### Admitted Bodies

1066 Housing Association	26.2%
Hove & Portslade Citizens Advice Bureau	16.0%
Sussex Lantern	16.0%
Rother Homes Ltd	16.0%
Sussex Archaeological Society	16.0%
Sussex Careers Services Ltd	15.6%
Sussex Housing And Care	16.0%
University of Sussex	16.0%
Freedom Leisure	12.7%
Commission for Social Care & Inspection	16.7%
Centre for British Teachers	13.1%
Jarvis Workspace FM	15.8%
Connexions Sussex	12.1%
De La Warr Pavillion Trust	15.0%
RBLI	15.0%
Eastbourne Leisure Trust (Serco)	8.0%
Convex Leisure	12.7%
Wealden & Eastbourne Lifeline (WELL)	15.7%
Eastbourne Homes	13.8%
May Gurney	18.5%
Waive Leisure	10.0%

# Notes to the East Sussex Pension Fund Accounts

## 7. Analysis of Contributions and Benefits

	Administrative authority £m	Scheduled bodies £m	Admitted bodies £m	Total £m
<b>2005/06</b>				
Contributions Receivable	24.2	43.7	2.2	70.1
Benefits Payable	24.1	34.5	1.2	59.8
<b>2006/07</b>				
Contributions Receivable	27.8	50.7	2.5	81.0
Benefits Payable	28.2	39.4	1.8	69.4

## 8. Contingent Assets & Liabilities

### Contingent Assets

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

The Fund has no contingent liabilities at 31 March 2007.

## 9. Stock Lending

The total amount of stock released to a third party under the Northern Trust Securities lending program within a regulated market at 31 March 2007 is £127.2m. Collateral held against these loaned securities is £134m (105%). £0.169m income was generated by stock lending activities during 2006/07.

## 10. Scheme and Investment Expenses

Regulations permit the County Council to charge administration costs to the Fund. A proportion of relevant County Council costs have been charged to the Fund on the basis of actual time spent on pension scheme administration and investment-related business and in safeguarding Fund assets. The fees of the Fund's external investment managers reflect the agreements contained in their respective mandates. Fees are linked to the market value of the Fund's investment and therefore may increase or reduce as the value of these investments change.

Total expenditure on scheme and investment management expenses during the year were £5.1m broken down as follows: Professional Fees £3.8m and Scheme Administration £1.3m.

## 11. Related Parties

Details of transactions with East Sussex County Council can be found in Notes 6 and 14 to the Accounting Statements. Other than those listed above in Note 6, no material transactions took place in 2006/07 with related parties. The Treasurer of the Pension Fund and members of the County Council and the Investment Panel have no material transactions with the Pension Fund. The professional fees paid to the Pension Fund's external investment fund managers and East Sussex County Council are shown in Note 10.

## **Accruals**

Provision made at the year-end to bring into account outstanding debtors, creditors, etc, in order to show income and expenditure as it is earned or incurred.

## **Actuarial Gains and Losses**

The change in pension liabilities since the previous year, caused either by events differing from the previous forecast, or a change in actuarial assumptions.

## **Actuarial Valuation**

A review of the Pension Fund, normally carried out at 3-year intervals, which assesses the contributions required from employing bodies in order to maintain the Fund's ability to pay benefits in future years to pensioners, contributors and their dependants.

## **Admitted Bodies**

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Pension Fund and the relevant body (contrasting with Scheduled Bodies – see below).

## **Balances**

A working balance maintained as a cushion against unexpected expenditure during the year.

## **Budget**

An expression mainly in financial terms of the Council's policy for a specified period.

## **Capital**

Capital expenditure pays for the acquisition of assets or the enhancement (rather than maintenance) of existing assets. We plan for capital expenditure over several years in the published capital programme. The term 'capital receipts' covers income from the sale of assets, together with grants and contributions received specifically for financing the capital programme. Capital receipts can only be used for capital purposes, and not to support the revenue budget.

## **Capital Charges**

Amounts charged to service revenue accounts for the use of assets, consisting of depreciation and notional interest.

## **Capital**

Expenditure on the acquisition of assets, or which adds to rather than maintains the value of existing assets. It is financed mainly from borrowing and charged to revenue over a number of years.

## **Capital Financing Account**

A reserve which is not available for spending purposes: it is credited with the amounts set aside for the repayment of external debt and with capital expenditure charged to revenue.

## **Cash Instruments**

These are investments which amount to short term deposits.

## **CIPFA / SOLACE**

CIPFA – the Chartered Institute of Public Finance and Accountancy.

SOLACE – the Society of Local Authority Chief Executives and Senior Managers.

These organisations jointly publish a framework document dealing with corporate governance.

## **Community Assets**

These are assets which the County Council intends to hold in perpetuity and have no determinable finite useful life.

## **Comprehensive Performance Assessment (CPA)**

An overall assessment of the performance and capabilities of local authorities, based on evidence from other external review bodies together with the Audit Commission's own judgements.

## **Corporate and Democratic Core**

This consists of two elements: Democratic Representation and Management, comprising the costs associated with members of the County Council including support costs, and Corporate Management, which covers a tightly defined core of central costs, including the cost of the Chief Executive, and the costs of corporate information such as preparing the Statement of Accounts.

## **Contingent Assets and Liabilities**

A statement of a possible gain or loss to the authority, which is contingent upon the outcome of an event which is not known for certain when the accounts are drawn up.

### **County Fund**

The main revenue fund of the Council into which is paid income from the council tax precept, grants and charges for services and from which is met the cost of providing services.

### **Creditors**

Amounts owed by the Council but not paid at the date of the Balance Sheet.

### **Current Service Cost**

The increase in pension liabilities expected to arise from employee service in the current period.

### **Curtailments**

This heading covers the additional cost arising from the early payment of pension benefits when an employee is made redundant. The full estimated discounted cost is charged immediately to the County Fund Revenue Account, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

### **Debtors**

Amounts owed to the Council but unpaid at the date of the Balance Sheet.

### **Defined Benefit and Contribution Pension Schemes**

Pension schemes generally fall into one of these two categories. Defined Benefit schemes are those such as the Local Government Pension Scheme, where the benefits to employees are based on their final salaries and where employers' contributions have to be adjusted to match estimates of future liabilities. Defined Contribution schemes are those where the employer's liability is restricted to the amount that they contribute. As the Teachers' Pension Scheme is administered nationally, it is treated in local authority accounts as a Defined Contribution scheme.

### **Deferred Charges**

Expenditure which may properly be charged to capital, and financed over a number of years, but which does not result in tangible assets.

### **Depreciation**

A charge to services in the Income & Expenditure Account, assessed as the amounts by which fixed assets reduce in value during the year, calculated from the estimated life expectancy and any residual value.

### **Equities**

Ordinary shares issued by companies.

### **Financial Reporting Standards (FRSs)**

Accounting standards approved by the Accounting Standards Board.

### **Fixed Asset Restatement Account**

This account shows the difference between the current valuations of assets and their previous book values.

### **Floor / Floor Authority**

See Revenue Support Grant.

### **Formula Spending Share (FSS)**

See Revenue Support Grant.

### **Government Grants**

Contributions by central Government towards either the revenue or capital cost of local authority services.

### **Impairment**

Impairment to assets may be physical in nature, such as damage by fire, or caused by a general or specific reduction in prices during the financial year.

### **Infrastructure**

This term covers capital investment on assets such as roads and rights of way.

### **Intangible Assets**

This term includes such items as development expenditure or goodwill, but for local authorities it only covers licences for the use of computer software.

### **Interest Cost**

The expected increase in the present value of pension liabilities during the current period, because the benefits are one year closer to settlement.

## **Leasing**

A method of obtaining the use of assets: a rental charge is paid for a specified period, but under operational lease conditions the asset remains the property of the lessor and the council has no rights to purchase.

## **Levies**

A contribution which the County Council is required to make towards the costs of the Environment Agency (for flood defence), the Ashdown Forest Conservators and Sussex Sea Fisheries.

## **Minimum Revenue Provision**

An amount, prescribed by Government, to be set aside from revenue for the redemption of debt.

## **Non-Distributed Costs**

These are costs which the council has to bear, but which do not support any statutory services. This includes three elements of the pension cost (Past Service Cost, Settlements and Curtailments) which are defined elsewhere, and the costs of properties which have been declared surplus and are awaiting disposal.

## **Non-Domestic Rates**

A charge on commercial and industrial buildings fixed by the Government and reallocated to local authorities.

## **Outturn**

The actual level of income and expenditure in a financial year.

## **Past Service Costs**

These arise when an employer agrees to provide added benefits in terms of years of service to an employee retiring early, normally because of redundancy. The full estimated discounted cost of the added years over the lifetime of the pension are charged immediately to the County Fund Revenue Account, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

## **Pooled Budgets**

These are formal arrangements, under Section 31 of the Health Act 1999, between local authorities and primary care trusts, to share the costs of various services which overlap the responsibilities of the various authorities. One authority hosts the entire activity for the partnership, and the others contribute towards the total costs on an agreed basis.

## **Post Balance Sheet Events**

A statement of the financial implications of an event taking place after the Balance Sheet date, which has a material effect on the council's financial position.

## **Private Equity**

Investments into new and developing companies and enterprises which are not publicly traded on a recognised stock exchange.

## **Private Finance Initiative (PFI)**

A long-term contractual public-private partnership, under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

## **Provisions**

Provisions are made for liabilities and losses which have already been incurred at the date of the balance sheet, but for which the amount or dates on which they will arise cannot be determined accurately.

## **Public Works Loan Board (PWLB)**

A Government agency which provides the main source of borrowing for local authorities.

## **Real Terms**

The value given to expenditure and income in different years after removing the effects of inflation. The figures then being in constant price terms enable a comparison to be made of changes in volume over the years.

## **Related Parties**

This term covers individuals or bodies with which the Council has a close economic relationship. It includes members and chief officers, Government departments who provide funding, and other bodies who are involved in partnerships with the County Council.

## **Reserves**

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

## **Restatements**

Assessed increases or decreases in values of the County Council's fixed assets.

## **Revenue**

Recurring expenditure principally on pay, running costs of buildings, equipment and capital financing costs.

## **Revenue Support Grant / Formula Spending Share / 4-Block Model / Floor and Floor Authorities**

Revenue Support Grant (RSG) – a significant general grant, received from the Government, and to contribute to the overall costs of providing services.

Formula Spending Share (FSS) – prior to the 4-block model this was the primary basis of the RSG entitlement calculation and it took account of demographic, physical and social characteristics of the County Council's area, to provide a measure of relative spending need in comparison to other local authorities.

4-Block Model – the financial modelling process that underpins the allocation of Revenue Support Grant. Formula Grant funding encompasses four elements: (1) a central minimum amount allocated per head of population; (2) the needs of a local authority to provide certain services; (3) the resources the local authority can generate for itself (e.g. the amount of council tax it can raise); (4) a safeguard to prevent unreasonable year-on-year fluctuations. These four elements represent the 'Four Block' method of calculating Formula Grant entitlement.

Floor – the Revenue Support Grant to which local authorities are entitled is calculated using complex formulae, based upon measures of local population needs and assessment of local council tax revenues. In order to reduce any effects of negative changes or developments in these grant formulae, a minimum ('floor') grant increase for each authority is guaranteed by the Government. Authorities receiving this minimum entitlement are generally known as 'floor' authorities.

## **Scheduled Bodies**

Local authorities and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

## **South East England Development Agency (SEEDA)**

A Government funded agency, set up in 1999, and responsible for economic and social development of the South East of England.

## **Settlements**

These are adjustments to the County Council's pension liability arising from bulk transfers of employees. The full estimated discounted cost or gain is charged immediately to the County Fund Revenue Account, under the heading of 'non-distributed costs', but this amount is offset by a transfer from the Pensions Reserve.

## **Stock Lending**

Stock lending is the practice of temporarily transferring securities to a borrower, who wishes to make use of the associated borrowing rights, in return for a consideration and secured by acceptable assets.

## **Transfer Value**

A lump sum paid or received for pension rights transferred from one pension scheme to another usually when employees change their employment.

## **Unfunded Pensions**

The continuing payment of those elements of pensions which may be awarded as additional years' service by the employer on early retirements triggered by redundancy. These pensions are payable by the County Fund and not by the Pension Fund.

## ***Additional Information***

In addition to the Statement of Accounts financial information can be gathered from the Council's agendas and other publications which are on display in the major public libraries in the County.

Information on the County Council's budget and finances can also be found on the website:

[www.eastsussex.gov.uk](http://www.eastsussex.gov.uk)

Further information on particular aspects of the Council's finances or those of the South Downs Conservation board or the Ashdown Forest Trust plus any of the following publications may be obtained from:

The Deputy Chief Executive and Director of Corporate Resources,  
P O Box 3  
County Hall  
Lewes, East Sussex  
BN7 1SF.

Or by email to [finance@eastsussex.gov.uk](mailto:finance@eastsussex.gov.uk)

### ***Financial Budget Summary - Price £5***

This booklet gives summaries and details of the approved annual revenue estimates for each service and a list of capital schemes planned for a 4-year period.

### ***East Sussex Pension Fund Annual Report - Price £5***

This booklet provides information about the Pension Fund in greater detail than that shown in this report.