East Sussex County Council

Statement of Accounts

2008/09

Contents

Foreword by the Deputy Chief Executive and Director of Corporate Resources

Accounts

The County Council's accounts for the year 2008/09, which follow, include:

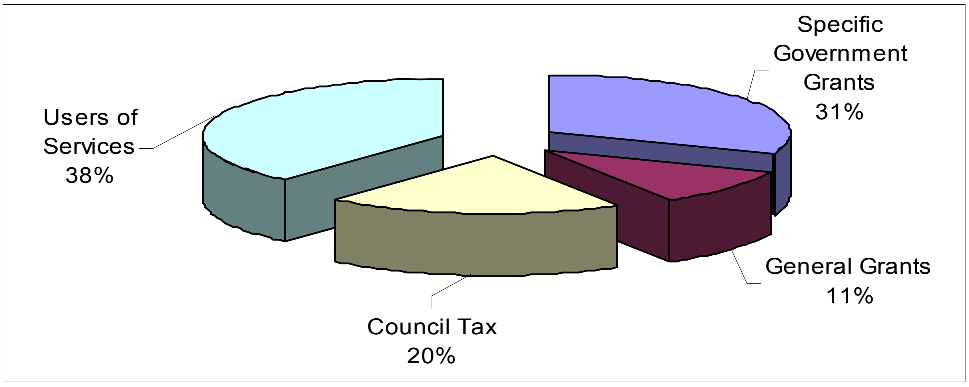
- A Statement of Responsibilities for the Statement of Accounts, outlining the responsibilities of the County Council and the Deputy Chief Executive and Director of Corporate Resources;
- An Annual Governance Statement;
- A Statement of Accounting Policies;
- Statements Reporting Reviews of Internal Financial Controls;
- 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 County Council at the year end;
- A Statement of Total 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 and Borough 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 2008/09

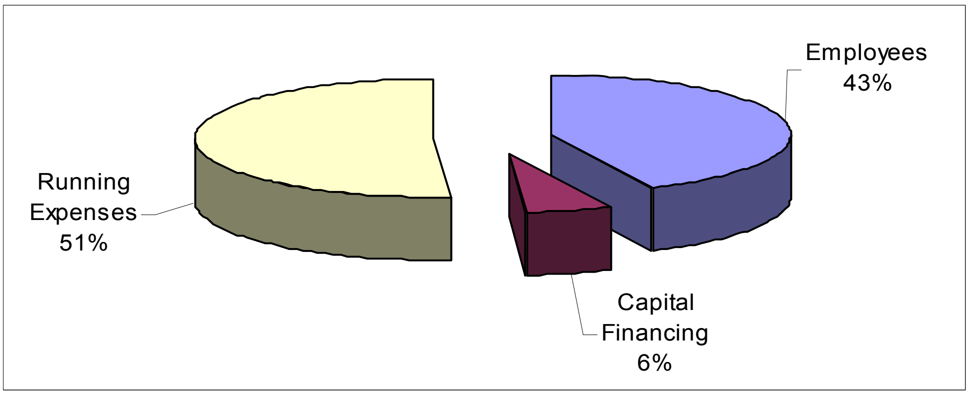
The following two charts show where the County Council's money comes from, what it is spent on and what services it provides. The Income and Expenditure Account on page 22 shows the services that the County Council provides.

Where the money came from



This chart shows that 31% of the County Council's revenue requirement came from specific Government grants (36% in 2007/08). General grants of 11% (10% in 2007/08), this is the proportion of income from general Formula Grant, Local Authority Business Growth Incentive Scheme (LABGI), and the new Area Based Grant (ABG) also set by Government. This means that the proportions met by Council Tax payers and users are 20% (21% in 2007/08) and 38% (34% in 2007/08) 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 43% 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 6%.

The 2008/09 Budget

Over the past few years the County Council has continued to enhance its medium term financial planning and in setting its budget for 2006/07 it also adopted a medium term council tax trajectory with increases in council tax reducing by 0.4% each year from 4.7% in 2006/07 to 3.5% by 2009/10.

The government grant settlement announced following Comprehensive Spending Review (CSR) 2007 continues to give increasing certainty about the County Council's government grant income for the following for 3 years. Grant increases of 3% (2008/09), 3.3% (2009/10) and 3.6% (2010/11) were announced.

This meant that from 2008/09, and for the first time since 2003/04, East Sussex County Council would not be subject to the "floor protection" which protected the County Council from grant losses or exceptionally low settlements by guaranteeing a minimum level of grant increase. This was welcome news for the future but over the seven years to 2008/09 the County Council had received just 8.3% more formula grant in total for services other than our schools – compared to an increase of 29.2% for local authorities nationally.

The combination of the County Council's own medium term council tax targets and the Government's announcement of general grant for a three year period has provided some welcome certainty in the medium term and has allowed the County Council to develop its plans and polices accordingly. The County Council has developed policy steers which set out key priorities, some of which have significant financial consequences (for example adult social care and waste disposal). The process used by the County Council to bring together these elements as well as its policy planning and risk management is *Reconciling Policy and Resources* – this approach has been commended by the Audit Commission and sighted as an example of notable practice.

In setting its budget for 2008/09 the 3% grant increase resulted in additional resources of £2.8m and against this the County Council faced cost increases of some £19.9m just to maintain service levels and quality and to handle known risks. After allowing for the 3.9% planned increase in council tax, savings of some £6.4m., were required to balance the budget. Where possible these have been achieved by productivity and efficiency savings and these have had a low impact but it has not been possible to avoid some difficult and painful decisions in order to make all of the savings required. The savings in 2008/09 increase the total savings since 2002/03 to £34m per annum - over £123 million in total over the 7 year period.

Revenue Budget

The table below sets out the main components of the revenue budget for 2008/09 in the normal management reporting format, and how these compare with the actual outturn.

Departments	Original Estimate £m	Actual Outturn £m	Variation £m	Variation %
Adult Social Care	150.2	149.3	0.9	0.01
Chief Executive	19.2	18.5	0.7	0.04
Children's Services	117.6	116.6	1.0	0.01
Corporate Resources	16.3	15.9	0.4	0.02
Transport & Environment	50.7	49.7	1.0	0.02
Service Spend (Ex DSG Related)	354.0	350.0	4.0	
DSG Related (i.e., Schools)	-	(1.6)	1.6	
Treasury Management, etc.	(15.9)	(18.9)	3.0	
	338.1	329.5	8.6	
Transfers to / (from):				
Underspend on TM	-	3.0		
Income from LABGI	-	0.2		
Carry Forward Reserve	-	5.6		
Net Budget Requirement	**338.1**	**338.3**		
Financed from				
Revenue Support Grant	11.5	11.5		
Non-Domestic Rates	82.3	82.3		
Council Tax	222.7	222.7		
Adjustments for earlier years	(2.1)	(2.1)		
Area Based Grant (ABG)	23.7	23.7		
Business Growth Incentive Scheme grant	-	0.2		
	338.1	**338.3**		
Balances				
Opening	7.0	6.8		
Change during year	0.1	0.7		
Closing	**7.1**	**7.5**		

Foreword by the Deputy Chief Executive and Director of Corporate Resources

The County Council's original estimate of net expenditure for the year amounted to £338.1m. The table shows that service expenditure by departments of £350.0m was around 1.13% below the original net expenditure on services budget of £354.0m. The actual spending was £329.5m, and these figures are based on the total cost of providing services (including charges for support services, using assets, and adjustments to show the true cost of providing pension to employees). Best Value Accounting Code of Practices (BVACOP) format is presented as income and expenditure accounts on page 22.

The County Council's general balances amounted to £7.5m at the year-end, and are in line with the target minimum level set by the County Council.

Capital

In 2008/09, the County Council spent £74.3m on its roads, schools and other capital projects.

In line with good project management practice and to minimise slippage the County Council does not allow a project to formally start until a Project Initiation Document (PID) has been produced. In exceptional circumstances, some minimal preliminary expenditure may be required prior to a PID being approved. Monitoring of the programme focuses on PID approved projects only and the following analysis is presented on the same basis; the spend on PID approved projects was £74.1m.

The original budget at the start of the year for PID approved projects was £52.0m. Any budget not spent in the previous year due to project delays is brought forward at the start of the year and added to this amount. In September each year, the complete programme is subject to thorough review (mid term review) and is submitted to Cabinet for approval. This, in effect, forms the revised estimate against which all post September monitoring takes place. The programme is also revised through formal approved variations during the year as better information becomes available and further external funding is secured. The final revised budget for the year was £76.4m.

The underspend on PID approved projects of £2.3m compared to the revised budget is due to earlier than planned spend of 2009/10 funding of £2.4m offset by scheme delays (slippage) of £4.5m and a net underspend of £0.2m

The larger schemes in 2008/09 included the Adult Social Care Change programme, Bridies Tan Travellers Site, Bexhill High School, Tideway Community School, Ringmer Community College, Rye Primary School, Next Generation Network, Bexhill and Hastings Link Road, Waste ERF Site Newhaven and many other improvements to schools and roads.

During 2009/10, the County Council plans to invest £99.9m, which will be funded as follows:

	£m
Capital Grants and Contributions	60.7
Borrowing	22.5
Capital Receipts	1.0
Revenue Contributions	3.0
Capital Programme Reserve	12.7
Total Resources	99.9

At 31 March 2009 the County Council's capital financing requirement, representing its overall need to borrow to finance past capital expenditure was £284.1m, as set out in note 18 to the accounting statements

2009/10 and beyond

The County Council's budget for 2009/10 was set in line with the medium term plan which included a council tax rise of 3.5% - the lowest increase for 14 years. Once again significant savings were needed just to maintain service levels and quality and to handle known risks. Where possible these were achieved through further productivity and efficiency improvements; in total savings of £7.4m were required bringing the total savings since 2002/03 to £41.3m per annum - over £165m in total over the 8 year period.

Local elections will mean that a new County Council is elected in June 2009 and it is clear that they will face an ongoing financial challenge. The unique demography of East Sussex, which has the highest percentage of very elderly (over 85) residents of any county, together with the impact of the recession, the likelihood of smaller increases in the levels of central government grant income, and a general trend towards lower council tax rises and rising demand for services creates the most significant medium term challenge. This has been set out as part of the Reconciling Policy and Resources process for 2009/10 and will form the key priority for the new Administration for 2010/11 and beyond.

Foreword by the Deputy Chief Executive and Director of Corporate Resources

East Sussex Pension Fund

During the year to 31 March 2009 the overall reduction in the Fund due to the downturn in equity and other markets was estimated to be 17.05% compared to the average reduction in Local Authority funds of 19.9%.

In line with the accounting standard FRS 17, the County Council's own net liability for future pension payments, as shown in the Balance Sheet, has increased from £169.8m at the start of the year to £262.6m at 31 March 2009. Note 6 to the accounting statements provide more information about the impact of this liability.

In assessing liabilities for retirement benefits at 31 March 2008, the actuary assumed a discount rate of 3.2% real (6.9% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2009, the actuary has advised that a rate of 3.7% real (6.9% nominal) is appropriate. All other things being equal, the change in the real discount rate over the year has resulted in a reduction in liabilities measured at today's prices of £64m, included in the net actuarial loss recognised for the year in the Statement of Total Recognised Gains and Losses

Changes to accounting policies

The Statement of Recommended Practice (SORP) 2008 has introduced some required changes to local authority financial statements.

The most substantive changes introduced into the 2008 SORP includes-

- Renaming the 'Statement on the System of Internal Financial Control' to 'Statements Reporting Reviews of Internal Financial Controls'.
- Deferred charges have been deleted in line with SORP 2008 and have been replaced by *Revenue Expenditure Funded from Capital Under Statute,* which reflects the current approach to accounting for expenditure that is not capital expenditure in accordance with Generally Accepted Accounting Practices (GAAP) but which statute allows to be funded from capital resources.
- SORP 2008 prohibits revaluation of fixed assets at the point of disposal. This is intended to prevent 'deathbed valuations', where the carrying amount of an asset is automatically adjusted to the net sale proceeds. However, this does not mean that Councils should not revalue assets once the decision to dispose them has been taken. Councils are required to ensure that the current values of assets are kept up to date. When an asset is transferred from operational to non-operational assets, the asset may need to be revalued.

There are some amendments to the Pension Fund Accounts to implement the requirements of the Pension SORP 2007, and the main changes are:

- it has been updated to take account of the financial reporting standards issued in respect of investments in particular the presentation requirements of FRS 25 *Financial Instruments: Disclosure and Presentation* and parts of FRS 26 *Financial Instruments: Recognition and Measurement*
- derivatives are now required to be valued on a fair value basis.
- investments are required to be valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price
- some increased disclosure requirements.

Under the 2008 SORP, the County Council has adopted the amendment to FRS 17 (Retirement benefits). As a result, quoted securities held as assets in the defined benefits pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2009 has been restated from £510m to £508m, a decrease of £2m, resulting in an increase of the pension deficit of £2m. Prior year deficits have been unaffected by this change

Other changes in 2008/09 include:

- amendment to clarify how the date the Statement of Accounts is *"authorised for issue"* should be interpreted;
- a number of clarifying amendments on *Financial Instruments,*
- amendments to clarify that, as permitted by FRS 1 *Cash Flow Statements* revenue activities, cash flows can be presented using either the 'direct method', whereby major categories of gross cash receipts and gross cash payments are disclosed, or the 'indirect method', whereby the net cash flow from revenue activities is derived by means of a reconciliation from the surplus or deficit on the Income and Expenditure Account for the year.
- To charge future expenditure on voluntary aided schools asset, i.e., properties not owned by the County Council, to the Income and Expenditure Account in accordance with the general provisions of the SORP.

Major influences on the Authority's financial position

The 2008/09 year has seen huge changes in the financial and economic environment. The year opened on an uncertain note with the Bank of England concerned that external cost pressures could lead to a domestic wage/price spiral and a period of damaging inflation. Following a 0.25% reduction in base rates in April to 5.0% interest rates were left on hold for the summer months but mid-September saw a sea change in financial markets and economic policies. The collapse of US investment bank, Lehman Brothers, dealt a devastating blow to the markets. Liquidity dried up almost completely making it extremely difficult for banks to function normally.

These developments culminated in the failure of the entire Icelandic banking system in early October and a number of Local Authorities which had invested in Icelandic banks remain uncertain how much of their deposits will eventually be received back. East Sussex County Council did not have any investments with Icelandic banks and has not suffered any losses.

The beginning of 2009 failed to herald a change in the fortunes of the banking sector. Central banks continued to ease monetary policies in an attempt to reduce borrowing rates and hence alleviate some of the cost pressures being experienced by financial institutions and, more to the point, the corporate and household sectors. With official interest rates in the US already at close to zero at end-2008, the Bank of England was at the forefront of policy easing. Bank Rate was cut in successive monthly moves from 2% at the outset of the year to the historically low level of 0.5% in March.

In recent years East Sussex County Council has benefited from underspends on its Treasury Management activities, mainly due to exceeding its prudent estimates of interest returns on investments. Despite the massive reductions in interest rates medium term investments have meant that for 2008/09 a £3million treasury management underspend was achieved and has been allocated, and will be carried forward, for one-off items in 2009/10. However, as medium term investments have matured they have had to be replaced by lower interest investments and in setting its budget for 2009/10 the County Council has provided for a reduction in interest receipts of some £2.5m within the Treasury Management budget and also set up a reserve in 2009/10 of £3.0m for losses beyond that sum.

In February 2009, the County Council repaid, from its existing cash balances, £12.6m of PWLB loan debt. At current interest rates the premature repayment of these loans, which were all due to mature within the next 5 years and were at rates over 7%, will result in a saving to the County Council.

At the end of 2008/09, economic data confirmed that the UK was in deep recession and the Bank of England Inflation Report (published in mid-February) registered a marked change in official forecasts for 2009 and 2010. Economic activity was expected to decline sharply (GDP was forecast to contract by more than 4% in 2009) and inflation was projected to fall into negative territory.

The recession will have a number of influences upon the County Council and its services and more generally upon the people and businesses of the County. The County Council has responded strategically and has a number of actions underway to work with partners to minimise the impact of the recession. The County Council has set up a fund of £1million in 2009/10 for this purpose. It is clear that the recession and its impact will continue well into 2009/10 and beyond and this will be a major theme. It is likely to put increasing pressure on many of the County Councils services due to rising levels of unemployment and reduced personal incomes, it will reduce income for the County Council – both revenue from fees and charges and capital from developer contributions, low interest rates will continue to mean low investment income to the County Council but low inflation may mean that costs will be lower than previously estimated, particularly wages costs (about 43% the County Council’s gross revenue spend) and construction contract costs. The shortage of credit may increase the risk of some suppliers ceasing trading and could impact on future PFI contracts. Prudent financial management over recent years has meant that the County Council is well placed, compared to many Authorities, to rise to the challenge of the recession.

In the light of on-going economic recession, the County Council has carried out a review for impairment of a fixed asset whether carried at historical cost or current valuation to determine if the carrying amount of the fixed asset may not/be recoverable. The County Council revalued those investment properties and properties surplus to ESCC’s requirement, which are not currently due for revaluation. In addition, it revalued its assets (Land and Buildings). This is to determine if there has been any diminution in the value of assets due to the current economic climate and to ensure that the accounts do not include values that are completely erroneous following major changes in asset values. The outcome of the review is an additional £32m total impairment charge into 2008/09 accounts.

Despite the increasingly difficult financial position the outturn for 2008/09 as set out earlier in this foreword shows that every department achieved a modest revenue underspend in 2008/09 and this will be carried forward into 2009/10. In addition, although there was still some slippage in the capital outturn this was much less then in previous years and reflects the effort which has been put into this area. The Statement also sets out details of the County Council’s earmarked reserves which are another essential tool to manage risk exposure and smooth the impact of major costs. The largest reserves relate to future exposure under the joint waste PFI contract, insurance (where the County Council self-insures some risks), the capital programme reserve which helps finance the County Council’s capital programme and the budget reserve which is the mechanism for carrying forward previous years underspends.

East Sussex County Council has established a high reputation for the way that it manages its resources and in 2007/08, for the first time, achieved an overall score of 4 out of 4 in the Comprehensive Performance Assessment (CPA) for its Use of Resources – this score was repeated in 2008/09. The County Council’s highly successful *Reconciling Policy and Resources* process which is used to develop policy, service plans and budgets in a fully integrated way, was highlighted by the Audit Commission as notable practice and scored 4 out of 4 as part of the financial management part of the CPA assessment. The County Council again scored 4 out of 4 for all 3 elements of the internal control part of the CPA assessment including its arrangements for managing significant business risks.

This is part of wider successes in 2008/09, which include-

- The County Council was rated as a four-star Authority under the Comprehensive Performance Assessment (CPA) framework. Its annual direction of travel was assessed as "improving well" – the second highest improvement level.
- The County Council's Trading Standards Service approved 74 businesses in the Buy with Confidence Scheme, a 123% achievement against the target.
- The tonnage of municipal waste landfilled per household was reduced to 44% (against a target of 63%). Residual waste per household fell to 671 tonnes (against a target of 780 tonnes) and the total waste reused, recycled and composted was increased to 35% (against a target of 32%).
- Adult Social Care Services helped more vulnerable people to live at home across all service user groups. This meant less permanent admissions of older people to residential or nursing care, and less people delayed receiving care in hospital. While more people with mental health needs or physical disabilities have been able to live at home while receiving care.
- The number of older people helped to live at home increased by 464 since 2007/08 to 7,507
- Improvements in the County Council's Adult Social Care services were recognised through its star rating increasing from one star to two stars.
- School Travel Plans were developed by 93% (181) of all Local Authority schools (exceeding our target of 80%). Walking Bus schemes and bi-annual Walk to School Week initiatives helped reduce car journeys to school and we are on track to reduce the proportion of journeys to school made by car to 33% in 2010/11 against a baseline figure of 37% for 2006/07
- The amount of primary schools providing access to the full core offer of extended services has increased to 69% exceeding the target of 50%. These services include childcare, additional activities, parenting support, access to specialist services, and making facilities available to the wider local community.
- The February 2009 percentage of children and young people whose NEET status was unknown was 3.77%, which compares well to 4.15% for the same month last year. This demonstrates the careful tracking of young people by Personal Advisors combined with timely sharing of information by Partners that continues to be maintained
- East Sussex County Council libraries issued 3,100,537 items, an increase of 1.5% on 2007/8 and against the national trend of declining use
- The number of adults achieving Level 1 or Level 2 qualifications in literacy and numeracy through Learndirect provision in libraries increased to 215, far exceeding the target of 160.

Treasury Management Borrowing Facilities and Investments

No new borrowing was undertaken with the PWLB during 2008/09. The County Council borrowed £6.45m from Barclays during 2008/09 at an interest rate of 4.25% pa (lower than PWLB rates), with a repayment due date of 10th October 2058.

During the year it was agreed to use "internal borrowing" to finance new capital investment and it was also agreed to repay some £13m of existing PWLB loans – this has taken place and will give total savings of £458,820. As a result of these changes (excluding premium on repayment of PWLB loans), the average interest rate of all debt at 31 March 2009 (£264m) has fallen to 5.17% compared to 5.45% at 31 March 2008.

In the current economic climate, it is essential that a very prudent approach is maintained. As at 31 March 2009, it is not expected that any new external borrowing will be undertaken in the next 15 months, however, the limits set out would allow such borrowing. External borrowing will only take place if the rates available are so low that the long term benefits will significantly exceed the short term cost. As regards investments, the policy is regularly reviewed and updated in this volatile area, and at 31 March was:

"The different elements of the total cash balances to be invested will be dealt with as follows:

1. Fire Authority – invested in line with their own specific policy and in the first instance assumed to mirror County Council policy at 3 below (estimated average £11m)
2. Interest on specific County Council reserves – invested solely in DMADF (estimated average £85m)
3. Balance of County Council funds (estimated average £180m)
   - Up to £120m maximum deposited on an overnight basis only with any of the following to the individual limits shown:

Bank / Fund	Proposed Maximum Investment
Barclays	£35m
Lloyds HBOS	£35m

Nat West (call account maximum)	£35m
Abbey	£35m
Treasury backed money market funds (AAA rated)	£35m
Money Market Funds (AAA rated)	£35m

Only banks that are eligible for the Government's Credit Guarantee Scheme and meet ESCC minimum rating criteria will be used. The balance in excess of £120m will be deposited with DMADF".

Removal of Voluntary Aided (VA) Schools Asset

During 2008/09 we reviewed our previous accounting treatment of voluntary aided (VA) schools in the light of new guidance provided within SORP 2008. Following internal review, it has been considered that the rewards and risk of ownership of VA schools asset lie more with the diocese than the County Council; that the rights to economic benefits and the rights to control these voluntary aided schools assets were not with the County Council and hence these assets should not be on the County Council's balance sheet. The value of VA Schools assets totalling some £39.68m have been removed from the balance sheet. Some land (school playing fields) belongs to the County Council and hence remains on the balance sheet. The decision was taken in consultation with our auditors.

This is a change in accounting policy as a result of guidance on the accounting for specific issue as required by SORP 2008, i.e., '*expenditure on assets owned by others*'. However, in line with SORP requirement, there will be no adjustment to the comparative figures for the prior year (2007/08) in the Income and Expenditure Account, because the inclusion of VA Schools dates back beyond the start of the immediately prior year. Necessary amendments will be made only to the Balance Sheet as at 31 March 2008 and hence to opening balances at 1 April 2008 to reflect amended opening balance for 2008/09 accounts. The restating of opening balance sheet will also affect the following notes to the core financial statements:

- Note 18 - Capital Expenditure & Financing
- Note 19 - Movements in Asset Balances
- Note 20 - Valuation of Fixed Assets
- Note 21 - Number of Assets Held
- Note 31 - Analysis of Movements in Reserves
- Note 32 - Revaluation Reserve
- Note 33 - Capital Adjustment Account

The effect of the prior period adjustments on the outturn in the Income and Expenditure Account for 2007/08 or what the impact would have been if they had been made in the previous year are as follows;

- Reduced depreciation charge to Income and Expenditure accounts, which will be neutralised as a result of reversal through the Statement of Movement on the General Fund Balance

- Increased amount written off as Revenue Expenditure Funded from Capital under Statute. This should have been a credit in the Statement of Movement on the General Fund Balance, which will be matched by a debit to the Capital Adjustment Account.

- The 2007/08 Annual Governance report to Members includes a comment about asset impairments and its accounting treatment (circa £8m). These assets include £3m worth of revaluation relating to Voluntary Aided Schools, i.e., Prior Period Adjustment will potentially reduce this amount to £5m, which will be below the materiality level for 2007/08 accounts.

Carbon Footprint

Last year the County Council included a statement in its accounts acknowledging its environmental stewardship responsibility as well as its financial one. The County Council continues to take this responsibility seriously and has continued to invest in carbon reduction initiatives. During 2008/09, the County Council adopted a new Climate Change Strategy Policy for new build construction and maintenance, which will drive up further the environmental performance of our buildings.

Sean Nolan

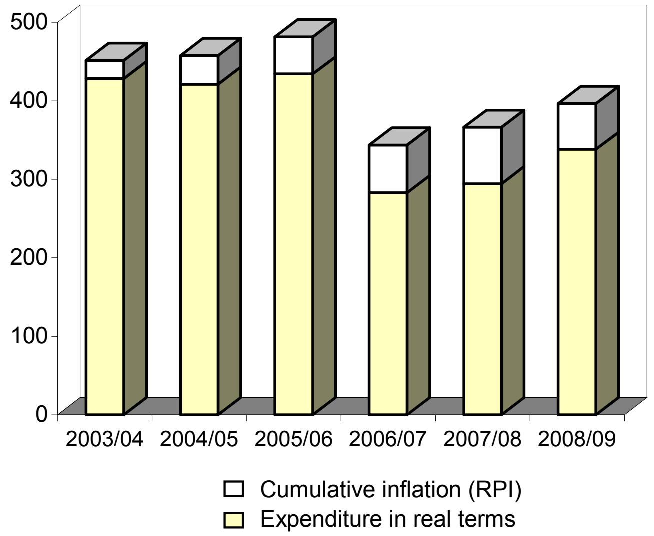
Deputy Chief Executive and Director of Corporate Resources

Foreword by the Deputy Chief Executive and Director of Corporate Resources

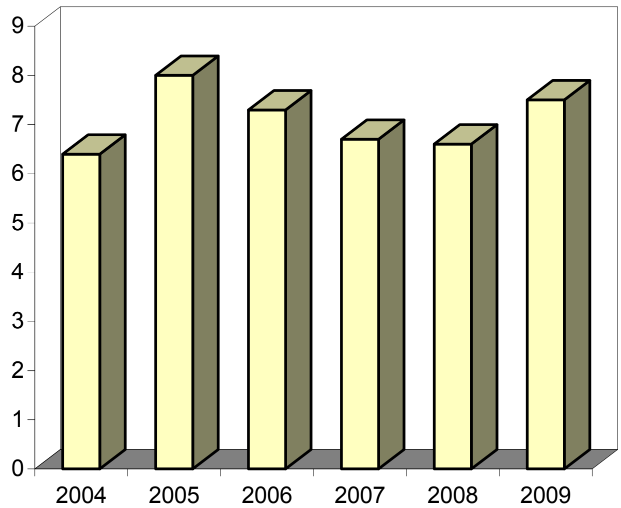
23 June 2009

Trends

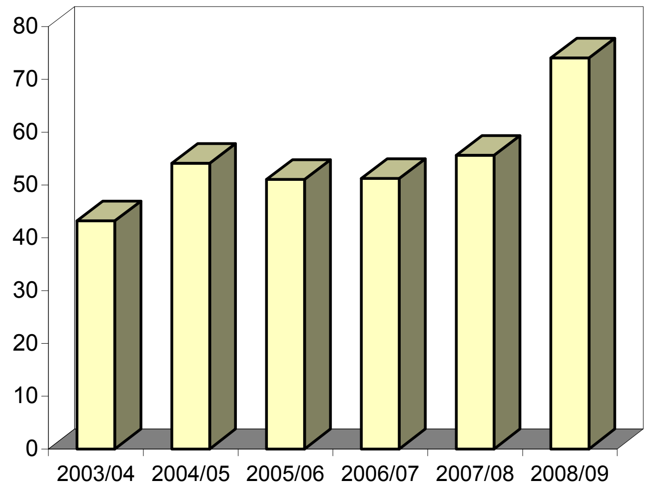
Net Revenue Expenditure in real terms £m



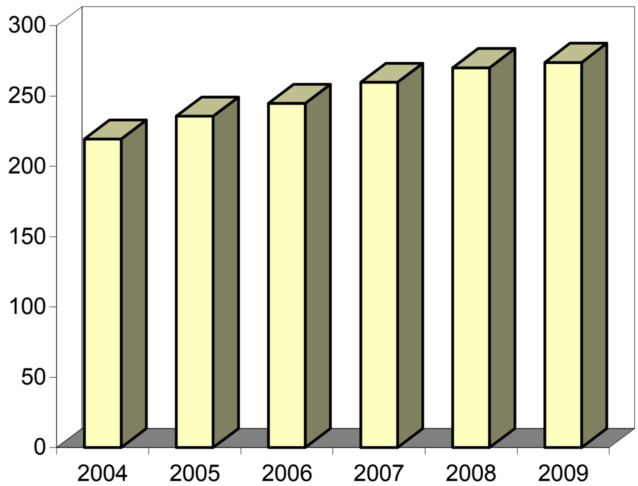
Revenue Balances at 31 March £m



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 the United Kingdom ('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 2009.

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

Sean Nolan

Deputy Chief Executive and Director of Corporate Resources
23 June 2009

Signature of the County Councillor presiding at the meeting
at which the accounts were approved:

Peter Jones

Leader and Chairman of the Governance Committee
23 June 2009

Independent auditors’ report to the Members of East Sussex County Council

Opinion on the Authority accounting statements

We have audited the accounting statements and related notes of East Sussex County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Deputy Chief Executive and Director of Corporate Resources and auditors

The Deputy Chief Executive and Director of Corporate Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword by the Deputy Chief Executive and Director of Corporate Resources, Trends, and the Statements of Reporting Reviews of Internal Financial Control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: ______________________________ Date: ______________

Name: Richard Bint
Partner, on behalf of PKF (UK) LLP
London, UK

Independent Auditor's Report to East Sussex County Council

Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Corporate Resources and Deputy Chief Executive and auditors

The Deputy Chief Executive and Director of Corporate Resources' responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword, Trends, and the Statements Reporting Reviews of Internal Financial Control published in the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature: ______________________ Date: ____________

Name: Richard Bint
Partner, on behalf of PKF (UK) LLP
London, UK

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, East Sussex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: ______________________________ Date: ________________

Name: Richard Bint
Partner, on behalf of PKF (UK) LLP
London, UK

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 overall responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussexcc.gov.uk or can be obtained from the County Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit Regulations 2003 (as amended) for the publication of a statement on internal control.

2. Purpose of the governance framework

Good governance is about how the County Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Our governance framework comprises the systems, processes, culture and values by which the County Council is directed and controlled. Through effective governance the County Council is accountable to, engages with and, where appropriate, leads the community.

The code of corporate governance can provide only reasonable and not absolute assurance that the County Council achieves its aim of good governance. Equally the County Council's system of internal control is designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2009 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 Governance Committee, Standards Committee, Audit and Best Value Scrutiny Committee, Scrutiny Committees generally and the full County Council;
- the work of Chief Officers and managers within the County 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 County Council's governance and internal control arrangements achieved a top rating of 4 out of 4;
- 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 key elements that comprise the County Council's governance arrangements are set out in the Local Code and they include:

- a Community Strategy and Council Plan that set out our vision for the community and the outcomes we intend to achieve;
- an established medium term planning process including the process for reconciling policy priorities with financial resources, which takes account of the need to improve both customer focus and efficiency;
- a business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the County Council's key objectives, as set out in the Council Plan, to officers and Members;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- financial management structures which promote ownership of financial issues within service departments;
- the County Council's constitution which sets out clear arrangements for decision making, scrutiny, communication and the delegation of powers to officers and Members;
- codes of conduct for Members and employees which set out clear expectations for standards of behaviour;
- a clear framework for financial governance based on Contract Standing Orders, Financial Regulations and Standard Financial Procedures;
- 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;
- Member committees with clear responsibilities for governance, audit and standards
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption;
- schemes for identifying the development needs of Members and officers, supported by appropriate training;

- strategies for communication and consultation with the people of East Sussex and our key stakeholders;
- clear guidance that promotes good governance in our partnership working;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, ICT security, access to information, data protection and project management.

5. Assurance and Significant Governance Issues

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the County Council's governance arrangements. 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, including a satisfactory system of internal control, both of which are operating effectively.

As part of our review, we have not identified any gaps in assurance over key risks or significant governance issues.

The County Council will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process

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 County Council has identified a number of areas where it wishes to enhance its governance arrangements, as follows:

- To continuously review the Corporate Governance Framework subject to the guidance from CIPFA/SOLACE
- To review and update the corporate Business Continuity plan in line with BS25999.
- With other Sussex local authorities, continue to identify appropriate ways to further promote Business Continuity into the wider community.
- To review the management of and procedures for corporate complaints handling in line with the customer focus framework and to develop a corporate complaints recording system.
- To understand and take action on the nature and extent of disadvantage and equality within East Sussex County and implement Corporate Equality Impact Assessments
- To apply the new Equality Framework for Local Government to ensure improvement against local and national indicators and compliance with legislation
- To review the corporate health and safety management including the health and safety values within the organisation.
- To improve the level of attendance and well-being of staff.
- To reduce the likelihood of ill-health retirement and ill-health absences
- To implement the revised constitution and new executive arrangements.
- To review the constitution where it relates to the Community Call for Action and handling of petitions.
- To review the County Council's information security policy and put in place consistent and robust approaches to information security.
- To update the internal schemes of delegations from Chief Officers to other Officers within the departments
- To make sure that all Councillors receive an appropriate induction and support following the elections on the 4 June 2009

Actions plans are in place to address these issues, and their implementation will be monitored and reviewed during the year.

Cllr Peter Jones
Leader and Chairman of the Governance Committee
23 June 2009

Cheryl Miller
Chief Executive
23 June 2009

1. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide legally binding guidance on local authority accounting. The Statement of Accounts summarises the County Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP). We have complied with this standard, except where noted in the paragraphs below. The accounting convention adopted for the County Council's accounts is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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, plant, vehicles and equipment (if it is worth more than £20,000), investment properties, assets held for disposal, assets under construction and community assets. See Note 20 for information about how we value our assets.

We charge depreciation on our assets, (except for freehold land, investment properties, assets under construction and community assets), 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.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum assets are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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.

Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss, due to a consumption of economic benefits, is charged to the Income and Expenditure Account initially but there were also accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Previously, Voluntary Aided (VA) schools assets have been included in the County Council's balance sheet. In line with the SORP 2008, as a change in accounting policy, all VA schools assets have been removed from the County Council's balance sheet on the basis that the assets are the risk of the Dioceses, and it controls rights to the future economic benefits inherent in the property. Some land (school playing fields) belongs to the County Council and hence remains on the balance sheet. The comparative Balance Sheet has been restated but as allowed under the SORP the Income and Expenditure Account has not been restated.

3. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. 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 revenue expenditure funded from capital under statute 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 revenue expenditure funded from capital under statute. The cost of revenue expenditure funded from capital under statute is immediately charged to the revenue account for the appropriate service. A corresponding reduction is made in the Statement of Movement on the County Fund Balance, so that this does not affect the overall charge to the taxpayer.

4. Charges to Revenue for Fixed Assets

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

- Depreciation is provided for on all assets with a determinable finite life (except for investment properties, assets under construction and community assets), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other loses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

This amount is reversed in the Statement of Movement on County Fund Balance, and has no impact on taxation.

5. Capital Receipts

Capital receipts (if more than the de minimis level of £10,000) 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 and contribution income is held in Unapplied Government Grants and Capital Contributions accounts until it is required to finance the related capital expenditure, when we transfer it to the Government Grants and Capital Contributions Deferred Accounts. The amounts which make up the Government Grants 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. Until 1 April 2008, income related to capital grants and contributions were held under Income in Advance until they were applied to the deferred accounts. The 2007/08 comparative balance sheet has been restated for this change.

7. Interest Charges

We show the accrued interest associated with a loan as part of the carrying value of the loan. Loans are included on the balance sheet at amortised cost based on the Effective Interest Rate (EIR) method.

Where no EIR calculation has been undertaken, the accrued interest will be charged to the Income and Expenditure Accounts and added to the value of the loan. This will increase the carrying value of the loan until such time the interest is paid.

8. Redemption of Debt

There is a legal requirement for the County Council to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement of at least 4% of its total debt outstanding at the start of the year or an amount calculated on a prudent basis determined by the County Council in accordance with statutory guidance. 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 material 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.

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 Income and Expenditure 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:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pensions Scheme.

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 Local Government Scheme is accounted for as a defined benefits scheme:

As per FRS 17, the liabilities of the pension scheme attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a real discount rate of 3.7% based on the annual rate of return on high quality corporate bond.

The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- expected return on assets – the annual investment return on the fund assets attributable to the County Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments – the result of actions to relieve the County Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits - The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

13. Investments

The investments in the County Council's accounts are shown at cost.

The County 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 (bid) price. The sources of valuation are as follows:

- Where available, all assets are priced at bid (the price a dealer is prepared to pay for a security).
- Northern Trust uses a number of established vendors for pricing equities and fixed income regardless of the market the security is traded in.
- Unitised funds' prices are also sourced from a number of vendors as well as the Investment Manager.
- Non-sterling priced assets are priced in the local currency and converted to sterling at the WM/Reuters 4pm foreign exchange rate.

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the County Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Where loans are replaced through restructuring, there are two distinct accounting treatments, as follow:

- *Modification* - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

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

- *Early repayment of loans* - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Income and Expenditure Account upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Statement of Movement on the General Fund Balance, after debits and credits have been made to the Income and Expenditure Account in line with the SORP's requirements. The adjustments made in the Statement of Movement are managed via the Financial Instruments Adjustment Account.

15. Financial Assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

16. Provisions and Reserves

We set aside provisions where an event has taken place that gives the Council Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain.

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

The County Council sets aside specific amounts as reserves for various future policy purposes which fall outside the definition of provisions. Details of individual reserves are given as a note to the accounting statements.

17. 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.

18. 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.

Estimation techniques are methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques are only included in the financial statements where they are applied to items where the range of possible monetary values is so large that any different amount could be material. Where a change in estimation techniques is material the change and effect is disclosed.

The main areas where estimation techniques are used are:

- Depreciation
- Allocation of overheads to services

19. 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.

20. 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.

21. Value Added Tax

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

22. 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.

23. 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.

Carbon Reduction Commitment (CRC) - This is a national scheme being introduced by central government to incentivise organisations within the public and private sectors to reduce their carbon emissions. The scheme focuses specifically on buildings and the carbon emissions attributable are based on the organisations consumption of electricity, gas and fuel oil. The four key requirements of the scheme are:

- Purchase in advance the estimated carbon emission allowances required by the authority at a fixed price from government.
- Monitor emissions and complete an annual report
- Surrender allowances equal to total emissions , buying or selling allowances as appropriate
- Receive a recycling repayment from the government based on the County Councils position within a league table of performance - improved performance is rewarded , poor performance is penalised

It is envisaged that a secondary trading market in these emission allowances will develop as the scheme becomes embedded over time.

24. 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 (if any) of such items will be given in the explanatory notes.

25. 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 County 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 County Council does not adjust the amounts recognised in its financial statements (non-adjusting events).

26. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the County Council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

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'.

Government grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

27. Capital Expenditure on Assets Owned by Others

The expenditure is charged to revenue on the basis of the benefit obtained by the service from the expenditure in that period. Any grant income that funded that expenditure is also credited to the relevant service.

Future expenditure on voluntary aided schools asset, i.e., properties not owned by the County Council, will be charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

Statement Reporting Reviews of Internal Financial Controls for the year ended 31 March 2009

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 County 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 County 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 County 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 very difficult. The recession has already had a significant impact on the County Council's finances and this looks set to continue into the medium term. It is likely that Government Grant settlements will become tighter whilst demand on the County Council's services will increase. A key aspect of the County Council's strategic risk management involves setting clear three year financial and policy planning frameworks underpinned by sensible and prudent resource planning frameworks. This will be a vital early task for the new County Council and a considerable challenge, but will build on the sound work carried out to date.

Continuing action will be taken to promote excellence in financial management across the County 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 2008/09. I remain satisfied, however, that all reasonable measures to control risk are being taken.

Sean Nolan – Deputy Chief Executive and Director of Corporate Resources

23 June 2009

Income and Expenditure Account

2007/08 Net Expenditure £000 *(Restated)*	See Note		2008/09 Gross Expenditure £000	2008/09 Income £000	2008/09 Net Expenditure £000
		Continuing Services			
79,232		Education and Children's Services	482,257	369,107	113,150
130,696		Adult Social Care Services	216,236	61,169	155,067
34,167		Highways & Transport Services	50,598	10,248	40,350
473		Other Housing Services	372	110	262
30,179		Cultural, Environmental & Planning Services	47,557	15,657	31,900
		Central Services:			
1,044		Central services to the public	2,147	1,110	1,037
2,199		Corporate and Democratic Core	2,238	28	2,210
1,318		Non Distributed Costs	8,995	149	8,846
732		Court Services	764	-	764
280,040		Net Cost of Services	811,164	457,578	353,586
-		(Gain)/Loss on Disposal of Fixed Assets			805
441	3	Levying bodies			442
(137)	4	Net Deficit / (surplus) on trading undertakings			(145)
16,914		External Interest payable			16,484
-		Net premiums for early repayment of loans			2,502
(15,900)		Interest and Investment Income			(13,174)
(1,094)	6	Pensions interest cost and net return on assets			11,504
280,264		Net Operating Expenditure			372,004
(212,957)		Council Tax			(220,609)
(11,720)		Revenue Support Grant			(11,460)
(222)		Local Authority Business Growth Incentive Grant			(173)
-		Area Based Grant			(23,717)
(69,835)		Non-Domestic Rates			(82,322)
(14,470)		Deficit /(Surplus) for the year transferred to the County Fund			33,723

Statement of Movement on County Fund Balance

2007/08 £000		2008/09 £000
(14,470)	Deficit/(Surplus) on Income and Expenditure Account for the year	33,723
12,404	Net additional amount required to be debited/(credited) to the County Fund balance (See note 17)	(34,166)
(2,066)	(Increase)/decrease in County Fund for the year	(443)
(15,357)	County Fund Balance brought forward	(17,423)
(17,423)	County Fund Balance carried forward	(17,866)
	Consisting of:	
10,670	Schools Balances	10,391
6,753	General Balance	7,475
17,423		17,866

The Income and Expenditure Account shows the County Council's actual financial performance for the year in accordance with proper accounting practice. However, the County Council is required to raise Council Tax on a different accounting basis. The main differences being that capital investment is accounted for as it is financed rather when the fixed asset is consumed, and retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. During 2008/09, there was a re-classification of services under BVACOP. For comparability and understandability of the Income and Expenditure Account, the 2007/08 services cost has been restated, with most impact between Education/Children Services and Adult Social Care Services.

This statement of Movement on County Fund Balance summarises the differences between the outturn on the Income and Expenditure Account and the County Fund balance. The amounts summarised above are set out in detail in Note 17 to the Accounting Statements.

2008 £000 (Restated)	2008 £000 (Restated)	See Note	At 31 March	2009 £000	2009 £000
		19-21	**Fixed Assets**		
	5,052		**Intangible Fixed Assets**		4,629
			Tangible Fixed Assets		
			Operational assets:		
529,297			Land and Buildings	546,275	
27,181			Vehicles, Plant, Furniture and Equipment	27,958	
137,684			Infrastructure Assets	146,354	
1,615	695,777		Community Assets	1,619	722,206
			Non-operational assets:		
3,927			Investment properties	2,000	
12,924			Assets under construction	12,955	
5,804	22,655		Surplus Assets held for disposal	8,020	22,975
	723,484		**Total Fixed Assets**		749,810
	53,695	24	Long Term Investments		1
	4,981		Long Term Debtors		5,409
	782,160		**Total Long Term Assets**		755,220
		5	**Current Assets**		
158			Stocks and Work in Progress	75	
5,607			Payments in Advance	4,337	
613			Landfill Allowances	231	
22,373		25	Debtors	20,939	
204,948			Short Term Investments	241,066	
140		26	Cash and Bank	178	
	233,839				266,826
	1,015,999		**Total Assets**		1,022,046
		5	**Current Liabilities**		
(219)			Short Term Borrowing	(210)	
(70,796)		27	Creditors	(66,841)	
(17,221)			Income in Advance	(10,638)	
(517)			Liability for Landfill Usage	(77)	
(19,390)	(108,143)	26	Accrued balance at bank and for third parties	(11,572)	(89,338)
	907,856		**Total Assets less Current Liabilities**		932,708
			Long-term liabilities		
	(271,565)	5,28	Long Term Borrowing		(265,434)
	(169,813)	6	Liability related to defined benefit pension schemes		(262,593)
	(21,879)	30	Unapplied Government Grants & Capital Contributions		(38,379)
	(127,378)	30	Government Grants & Capital Contributions Deferred		(149,999)
	(4,951)	29	Provisions		(5,756)
	312,270		**Total Assets less Liabilities**		210,547
		31	**Financed by:**		
	8,967	32	Revaluation Reserve		27,773
	313,441	33	Capital Adjustment Account		287,919
	(1,285)		Financial Instruments Adjustment Account		(3,047)
	(169,813)	6	Pensions Reserve		(262,593)
	7,232	34	Usable Capital Receipts Reserve		4,827
	136,305	35	Earmarked Reserves		137,802
	6,753		General Balances - County Fund		7,475
	10,670		- Schools		10,391
	312,270		**Total Net Worth**		210,547

I certify that this Statement of Accounts presents fairly the financial position of the County Council as at 31 March 2009 and its Income and Expenditure for the year then ended.

Sean Nolan,
Deputy Chief Executive and Director of Corporate Resources, 23 June 2009

The Statement was re-approved by the Governance Committee on 4 September 2009.

Statement of Total Recognised Gains and Losses

	2007/08	2008/09
	£000	£000
(Surplus) / Deficit on Income and Expenditure Account	(14,470)	33,723
Net (Gain) / Loss on valuation of fixed assets	(16,009)	(19,154)
Actuarial (Gain) / Loss on Pension Fund assets and liabilities	3,659	87,134
Other (Gains) / Losses	1,362	20
Total recognised (gains) / losses for the year	**(25,458)**	**101,723**

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;
- Other (Gains)/Losses is a £0.020m fair value re-measurement of a stepped investment loan that was repaid during 2008/09;
- The Total Recognised Gain or Loss for the year of £101.723m represents the movement in Total Net Worth between the opening and closing balances on the Balance Sheet;
- The 2007/08 Statement of Accounts showed a Total Net Worth of £351.952m at 31/3/08. The 2007/08 comparative Balance Sheet has now been restated to show a Total Net Worth of £312.270m due to the removal of voluntary aided schools. The 2007/08 Statement of Total Recognised Gains and Losses has not been restated for this change.

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. The cashflow statement has been prepared using the indirect method. 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 47 and 48 set out the movement in cash reconciled to the movement in net debt, explanation of what the County Council includes in liquid resources, and reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing Balance Sheets.

	2007/08				**2008/09**	
£000	£000	£000		£000	£000	£000
			Revenue Activities			
			Cash outflows			
378,387			Cash paid to and on behalf of employees	387,636		
338,832			Other operating costs	495,466		
-	717,219		Revenue funded from capital under statute	7,411	890,513	
			Cash inflows			
(11,720)			Revenue Support Grant	(11,460)		
(69,839)			Non-domestic rate income	(82,322)		
(212,957)			Council tax income	(220,609)		
(367,656)			Other government grants	(366,563)		
(63,415)			Cash received for goods and services	(50,724)		
(59,628)	(785,215)		Other revenue cash income	(200,718)	(932,396)	
		(67,996)				(41,883)
			Returns on Investments and Servicing of Finance			
			Cash outflows			
	21,417		Interest paid		16,450	
	-		Premium on the early repayment of debt		2,502	
			Cash inflows			
	(16,108)		Interest received		(18,452)	
		5,309				500
		(62,687)	**Net cash (inflow)/outflow from revenue activities**			(41,383)
			Capital Activities			
			Cash outflows			
	68,145		Investment in fixed assets		65,723	
			Cash inflows			
(7,079)			Sale of fixed assets	(666)		
(30,318)			Capital grants received	(23,407)		
(4,243)	(41,640)		Other capital income	(2,032)	(26,105)	
		26,505				39,618
		(36,182)	Net cash (inflow) / outflow before financing			(1,765)
			Management of Liquid Resources			
	40,320		Net increase / (decrease) in short term deposits		37,930	
	10,003	50,323	Net increase / (decrease) in other liquid resources		(50,208)	(12,278)
		14,141				(14,043)
			Financing			
			Cash outflows			
45,441			Repayments of amounts borrrowed	12,629		
-	45,441		Reduction in short term loans	-	12,629	
			Cash inflows			
(55,462)			New loans raised	(6,450)		
(1)	(55,463)		Increase in short term loans	8	(6,442)	
		(10,022)				6,187
		4,119	**Net (increase) / decrease in cash**			(7,856)

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, 23 June 2009.

The Statement of Accounts (re-approved on 4 September 2009) is published with an audit opinion and with amendments since member approval on 23 June 2009.

2. Fair Value of assets and liabilities carried at amortised cost

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

- for loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- estimated interest rates at 31 March 2009 of 5.29% for loans from the PWLB and 1.42% for other loans receivable and payable;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- no early repayment or impairment is recognised;
- where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the principal outstanding or the billed amount.
- the fair value of trade and other receivables is taken to be the billed or invoiced amount.
- the fair value of trade and other payables is taken to be the invoiced amount.

The fair values calculated are as follows:

	31 March 2008		**31 March 2009**	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB Debt	(265,115)	(297,200)	(252,291)	(290,631)
Non PWLB Debt	(6,450)	(6,135)	(13,143)	(12,814)
Total Debt	(271,565)	(303,335)	(265,434)	(303,445)
Other Liabilities	(130,022)	(130,022)	(127,717)	(127,717)
Total Financial Liabilities	(401,587)	(433,357)	(393,151)	(431,162)

The fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interst rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

Money Market Loans < 1 year	204,948	204,948	241,066	241,066
Money Market Loans > 1 year	53,486	53,803	-	-
Total Money Market Loans	258,434	258,751	241,066	241,066
Other Assets	31,048	31,048	28,332	28,332
Total Loans and Receivables	289,482	289,799	269,398	269,398

The fair value is the same as the carrying amount because the Council's portfolio of investments will mature in the next 12 months. The carrying amount is therefore assumed to approximate to fair value.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date and include accrued interest. The fair values for non PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value of these instruments.

3. Levying Bodies

	2007/08	2008/09
	£'000	£'000
Ashdown Forest Conservators	96	87
Sussex Sea Fisheries	221	229
Environment Agency (flood defence)	124	126
Total	**441**	**442**

4. Trading Accounts

The table below analyses the figure shown in the County Income and Expenditure Account as the net effect of trading accounts:

	2007/08			2008/09		
	Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
County Catering Service	348	(357)	(9)	391	(407)	(16)
County Transport Group	700	(826)	(126)	441	(582)	(141)
1970 Act (see below)	2,591	(2,593)	(2)	2,771	(2,759)	12
Total	**3,639**	**(3,776)**	**(137)**	**3,603**	**(3,748)**	**(145)**

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:

	2007/08			2008/09		
	Expenditure	Income	Proportion of Related Capacity	Expenditure	Income	Proportion of Related Capacity
	£'000	£'000	%	£'000	£'000	%
Legal Services	400	(400)	19	439	(439)	21
County Records	368	(368)	37	374	(374)	36
School Library Service	112	(112)	18	118	(118)	21
Music Tuition	204	(206)	7	210	(198)	7
Street Lighting	386	(386)	10	368	(368)	12
Lewes Car Parking scheme	409	(409)	22	403	(403)	21
ICT Services	44	(44)	1	30	(30)	-
Financial Services	263	(263)	3	266	(266)	2
Property Services	58	(58)	1	87	(87)	1
Other	347	(347)	-	476	(476)	19
Total	**2,591**	**(2,593)**		**2,771**	**(2,759)**	

5. Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2008	31 March 2009	31 March 2008	31 March 2009
	£'000	£'000	£'000	£'000
Financial liabilities at amortised cost	293,444	303,813	108,143	89,338
Financial liabilities at fair value through the I&E	-	-	-	-
Total borrowings	293,444	303,813	108,143	89,338
Loans and receivables at amortised cost	58,467	5,409	231,015	263,989
Available-for-sale financial assets	-	-	-	-
Financial assets at fair value through the I&E	-	-	-	-
Unquoted equity investment at cost	209	1	-	-
Total investments	58,676	5,410	231,015	263,989
Non - Financial Instruments balances:				
Stocks and Work in Progress			158	75
Debtors - VAT			2,666	2,762
Total			**233,839**	**266,826**

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 County 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 Income and Expenditure 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 County Council has liabilities for discretionary payments for added years, and other benefits, both for local government employees and for teachers. These are charged as an expense to the accounts of the County Council, rather than those of the Pension Fund.

Under the 2008 SORP, the County Council has adopted the amendment to FRS 17, Retirement benefits. As a result, quoted securities held as assets in the defined benefits pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2009 has been restated from £510m to £508m, a decrease of £2m, resulting in an increase of the pension deficit of £2m. Prior year deficits have been unaffected by this change

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 cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2007/08 As restated £000	2008/09 £000
Income and Expenditure Account		
Net Cost of Services:		
- Current Service Cost	22,321	17,265
- Past Service Cost	117	6,164
- Settlements and Curtailments	397	1,703
Net Operating Expenditure:		
- Interest Cost	43,599	53,797
- Expected Return on Scheme Assets	(44,693)	(42,293)
Net charge to the Income and Expenditure Account	**21,741**	**36,636**
Statement of Movement on the General Fund Balance:		
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to scheme	27,499	30,990
- Reversal of net charges made for retirement benefits in accordance with FRS 17	(21,741)	(36,636)
Net Movement on Pensions Reserve	**5,758**	**(5,646)**

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £87.1m (£3.7m in 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £125.8m.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2007/08 as restated £000	2008/09 £000
Liabilities 1 April:	**819,477**	**779,008**
Current Service Cost	22,321	17,265
Interest Cost	43,599	53,797
Contributions by scheme participants	7,689	8,717
Actuarial gains and losses	(82,178)	(64,008)
Past Service Cost	117	6,164
Losses/Gains on Curtailments	397	1,703
Estimated Unfunded Benefits Paid	(4,527)	(4,580)
Estimated Benefits paid	(27,887)	(27,498)
Liabilities 31 March:	**779,008**	**770,568**

Reconciliation of fair value of the scheme assets:

	2007/08 as restated £000	2008/09 £000
Assets 1 April	**647,564**	**609,194**
Expected rate of return	44,693	42,293
Contributions by scheme participants	7,689	8,717
Employer contributions	22,972	26,410
Contributions in respect of unfunded benefits	4,527	4,580
Actuarial gains and losses	(85,837)	(151,141)
Unfunded benefits paid	(4,527)	(4,580)
Benefits paid	(27,887)	(27,498)
Assets 31 March	**609,194**	**507,975**

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

The actual return on scheme assets in the year was -£106,597,000 (2007/08: -£23,530,000).

Scheme history

	2004/05* £000	2005/06* £000	2006/07 As restated £000	2007/08 As restated £000	2008/09 £000
Present Value of Liabilities: Local Government Pension Scheme	(691,146)	(757,770)	(819,477)	(779,008)	(770,568)
Fair value of assets in the Local Government Pension Scheme	482,340	602,480	647,564	609,195	507,975
Surplus/(deficit) in the scheme: Local Government Pension Scheme	**(208,806)**	**(155,290)**	**(171,913)**	**(169,813)**	**(262,593)**

* The County Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS 17 (as revised).

The liabilities show the underlying commitments that the County Council has in the long run to pay retirement benefits. The total liability of £770.6m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £262.6m.

However, statutory arrangements for funding the deficit mean that the financial position of the County Council remains healthy. The deficit on the Local Government Scheme will be made good by increased contributions over a 20 year period, as assessed by the scheme actuary

The total contributions expected to be made to the Local Government Pension Scheme by the County Council in the year to 31 March 2010 is £23.5m. This excludes item that cannot be fairly estimated in advance such as past service cost, losses/(gains) on curtailments and settlements, etc.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hymans Robertson LLP, Hymans Robertson Financial Services LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2007.

The principal assumptions used by the actuary have been:

	2007/08	2008/09
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.7%	7.0%
Bonds	5.7%	5.4%
Property	5.7%	4.9%
Cash	4.8%	4.0%
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	19.6 Years	
Women	22.5 Years	
Longevity at 65 for future pensioners		
Men	20.7 Years	
Women	23.6 Years	
Rate of inflation/Pension Increase Rate	3.6	3.1
Rate of increase in salaries	5.1	4.6
Expected Return on Assets	6.9	6.5
Rate for discounting scheme liabilities	6.9	6.9

Assets in the Pension Fund consist of the following categories, by proportion of the total assets held by the Fund:

	31 March 2008	31 March 2009
	%	%
Equity investments	66	76
Bonds	14	10
Property	10	8
Cash	10	6
Total	**100**	**100**

Amount Recognised in Statement of Total Gains and Losses (STRGL)

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Actuarial Gains and Losses	(79,946)	294	44,607	(3,659)	(87,134)
Increase/(decrease) in Irrecoverable Surplus from Membership fall and other factors	-	-	-	-	-
Actuarial Gains/(Losses) recognised in STRGL	(79,946)	294	44,607	(3,659)	(87,134)
Cumulative Actuarial Gains and Losses	**(79,946)**	**(79,652)**	**(35,045)**	**(38,704)**	**(125,838)**

At 31 March 2009, the County Council owed £2,983,000 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 31 March 2008, can be found on pages 57 to 68.

7. Teachers' Pension Scheme

Teachers employed by the County Council are members of the Teachers' Pension Scheme, administered by the Department for Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2008/09 the County Council incurred a total of £17.8m payable to the Teachers' Pension Agency in respect of teachers' pension costs, which represents 14.1% 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 £2.2m, representing 1.8% of pensionable pay. These figures compare to an amount of £17.3m payable in 2007/08 (14.1% of pensionable pay), and £2.1m 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 County 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 2009, 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 Income and Expenditure Account was incurred under this section of the 1972 Act.

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:

	2007/08	2008/09
	£000	£000
Staff costs, etc	510	530
Recruitment advertising	1,267	1,359
Other non-exempt advertising	1,006	942
Total	**2,783**	**2,831**

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

10. *Partnership Schemes under* Section 75 of the National Health Services Act 2006

In 2008/09 the County Council participated in four partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006 with the Primary Care Trusts: East Sussex Downs and Weald PCT and Hastings and Rother PCT.

- The **Learning Disabilities** scheme, which commenced in November 2004, 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	2007/08 Expenditure £'000	2007/08 Income £'000	2007/08 ESCC Contribution £'000	2008/09 Expenditure £'000	2008/09 Income £'000	2008/09 ESCC Contribution £'000
Learning Disabilities	34,990	(34,990)	23,578	36,819	(36,819)	24,690
Integrated Community Equipment	2,978	(2,978)	1,489	3,009	(3,017)	1,509
Community Collaborative Rehabilitation	768	(768)	418	567	(567)	144
Carers Services	496	(496)	258	581	(581)	318
Total	39,232	(39,232)	25,743	40,976	(40,984)	26,661

11. South Downs Joint Committee and South Downs Advisory Forum 2005-2009

The parties to the agreement are Natural England, the County Councils of East Sussex, Hampshire and West Sussex, the unitary council of Brighton and 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 2008/09 was £2.860m, met partly by £2.005m of funding by the constituent parties of which East Sussex County Council contributed £242,000 (8%).

12. Members' Allowances

The total amount of allowances and of travelling and subsistence expenses payable in 2008/09 were £883,000 compared to £866,000 in 2007/08.

13. Officers' Emoluments

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

Remuneration band	2007/08	2008/09
£50,000-£59,999	168	208
£60,000-£69,999	43	64
£70,000-£79,999	22	28
£80,000-£89,999	9	11
£90,000-£99,999	8	6
£100,000-£109,999	4	3
£110,000-£119,999	2	2
£120,000-£129,999	-	2
£130,000-£139,999	2	1
£140,000-£149,999	1	-
£150,000-£159,999	-	1
£160,000-£169,999	-	-
£170,000-£179,999	1	1

These figures cover all employees, including local government officers and teachers. Remuneration comprises – gross pay (before the deduction of employees' pension contributions), but exclude employer's pension contributions.

14. Transactions with Related Parties

The County Council is obliged to disclose material transactions with related parties, a term that 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 County 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.

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 Income and Expenditure Account and the Cash Flow Statement, and in Note 40.

Members of the County Council have direct control over the Council's financial and operating policies. 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. A Member is a Director of a company, i.e., Ingham House Ltd a Residential Care Home in Eastbourne that received monies in lieu of contracts for residential care contract of approximately £200,000 for the year ending 2008/09.

During 2008/09, the Pension Fund had an average balance of £4.62m deposited with the County Council, which paid £192,360 interest for these deposits. The County Council charged the Fund £1.4m for expenses incurred in administering the Fund.

The County Council is involved with several partnerships under Section 75 of the National Health Services Act 2006, 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 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 £15,180. In addition, the County Council acts as Accountable Body for the purposes of grant receipts from SEEDA, under the Area Investment Framework. There were no long-term debts to the company as at 31 March 2009.

15. Audit Costs

The table below sets out the fees agreed with both Audit Commission (AC) and PKF for services rendered during the year. All external audit services were carried out by both AC and PKF.

	2007/08	2008/09		
Paid to:	**£000 Total**	**£000 PKF**	**£000 AC**	**£000 Total**
External audit services	170	218	2	220
Statutory inspection	92	-	16	16
Grant claims and returns	22	17	-	17
Sub- Total	**284**	**235**	**18**	**253**
Pension Fund Audit	17	50	-	50
Total	**301**	**285**	**18**	**303**

16. Operating and Finance Leasing

The County Council does not enter into finance leases, which would allow the County 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 2008/09 was £1,583,000 compared to a figure of £1,630,000 in 2007/08. Commitments as at 31 March 2009 of £1,535,000 include leases expiring in:

	£000
2009/10	317
2010/11 to 2014/15	1,175
2015/16	43
	1,535

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

2007/08		2008/09		
£000		£000	£000	£000
(14,470)	Deficit/(Surplus) on Income and Expenditure Account for the year			33,723
	1 Items in Income and Expenditure but not chargeable to County Fund			
(37,012)	Depreciation and Impairment of Fixed Assets (see 'a' below)	(58,373)		
7,846	Amortisation of Government Grants Deferred	8,670		
(10,184)	Revenue Expenditure Funded from Capital under Statute	(7,411)		
-	Net Gain or Loss on sale of fixed assets ((see 'b' below)	(805)		
86	Net premiums for early repayment of loans to I & E from previous years	(1,644)		
-	Soft Loan Amortisation	(99)		
(21,741)	Net charges made for retirement benefits in accordance with FRS 17	(36,636)		
(61,005)			**(96,298)**	
	2 Items chargeable to County Fund but not included in the Income and Expenditure Account			
10,403	Statutory provision for repayment of debt	10,963		
(9)	Fair Value Measurement of Investment	-		
9,988	Capital expenditure charged to County Fund	18,482		
27,499	Employer's contributions payable	30,990		
47,881			**60,435**	
	3 Other transfers to / (from) County Fund but not included in the Income and Expenditure Account			
200	Voluntary Provision for Repayment of Debt	200		
25,328	Transfer to / (from) earmarked reserves	1,497		
25,528			**1,697**	
12,404				(34,166)
(2,066)	**County Fund (Surplus) / Deficit for the year**			**(443)**

a) To determine if there has been any material downward valuation in assets due to the current economic climate, the County Council revalued those investment properties and properties surplus to ESCC's requirement, which are not currently due for revaluation. In addition, the County Council revalued every asset that currently has a Net Book Value of over a million pounds (£1m), and this has resulted in an additional impairment charge of £28.3m. Amount charged to service revenue accounts for the use of assets (depreciation) in 2008/09 is 30.1m. The impairment charges made to the Income and Expenditure Account in 2008/09 are Education & Children's £23.4m, Highways and Transport £2.0m, Adult Social Care £2.0m, Non Distributed Costs £0.7m and Cultural, Environmental & Planning £0.2m .

b) This is the amount by which the sale proceeds on disposal of a tangible fixed asset are more (gain) or less (loss) than the carrying amount. Fixed assets derecognised/disposed in 2008/09 with either gain or losses include the following:

Tangible fixed asset	Gain/(Losses) 31 March 2009 £000
Wivelsfield Green School	523
Downlands Centre	206
Polegate/Saxonholme	3
Ridgewood Rise	450
Maresfield Camp	57
Other Fixed Assets disposal - Gains	(434)
Total	**805**

18. Capital Expenditure and Financing

	2007/08		2008/09	
	£000	£000	£000	£000
Opening Capital Financing Requirement		259,817		273,906
Operational assets	54,511		66,319	
Non-operational assets	2,831		31	
Intangible assets	764		666	
Revenue Expenditure Funded from Capital under Statute	10,168		7,203	
Total capital investment	68,274		74,219	
Capital receipts	(1,937)		(3,071)	
Government grants	(27,462)		(27,517)	
Other contributions	(4,195)		(3,774)	
Revenue financing	(9,988)		(18,482)	
Total financing other than from loan	(43,582)		(52,844)	
Net investment financed from loan		24,692		21,375
Revenue provision for repayment of loans		(10,603)		(11,163)
Closing Capital Financing Requirement		**273,906**		**284,118**

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 loans 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 3, 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 2008 £000	31 March 2009 £000
	(Restated)	
Fixed Assets	723,484	749,810
Innovation Centre Investment	208	-
Government Grants Deferred	(109,226)	(128,771)
Capital Contributions Deferred	(18,152)	(21,228)
Capital Adjustment Account	(313,441)	(287,919)
Revaluation Reserve	(8,967)	(27,773)
Capital Financing Requirement	**273,906**	**284,118**

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 on the County Fund Balance (Note 17).

The balance has been restated to reflect the exclusion of the Voluntary Aided (VA) schools, which are legally owned by the church authorities. This is line SORP 2008 guidance and that the church authorities controls rights to the future economic benefits inherent in the school assets.

19. Movements in Asset balances

The assets below exclude voluntary aided schools, which are legally owned by the church authorities. Both classes of assets (Land and Building) are excluded in the accounts of the County Council in line with 2008 SORP, because of the assets are the risk of the church authorities, and the church authorities controls rights to the future economic benefits inherent in the assets.

	Other land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Total Operational Assets
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
As at 31 March 2008 (previously reported)	620,525	58,032	194,739	1,615	874,911
Adjustment for Voluntary Aided Schools	(45,772)	-	-	-	(45,772)
As at 1 April 2008 (restated)	574,753	58,032	194,739	1,615	829,139
Adjustment for 2007/08 Impairment	6	-	-	-	6
Additions	42,661	6,885	16,724	4	66,274
Donations	-	-	-	-	-
Disposals	(4,789)	(66)	-	-	(4,855)
Reclassifications	(2,836)	-	-	-	(2,836)
Revaluations	14,013	-	-	-	14,013
Impairments	(28,883)	-	-	-	(28,883)
At 31 March 2009	594,925	64,851	211,463	1,619	872,858
Depreciation					
As at 31 March 2008 (previously reported)	(51,546)	(30,850)	(57,055)	-	(139,451)
Adjustment for Voluntary Aided Schools	6,089	-	-	-	6,089
As at 1 April 2008 (restated)	(45,457)	(30,850)	(57,055)	-	(133,362)
Charge for 2008/09	(14,758)	(6,098)	(8,054)	-	(28,910)
Disposals	3,601	55	-	-	3,656
Reclassifications	188	-	-	-	188
Revaluations	7,776	-	-	-	7,776
Impairments	-	-	-	-	-
At 31 March 2009	(48,650)	(36,893)	(65,109)	-	(150,652)
Balance Sheet amount at 31 March 2009	**546,275**	**27,958**	**146,354**	**1,619**	**722,206**
Balance Sheet amount at 31 March 2008	**529,297**	**27,181**	**137,684**	**1,615**	**695,777**
Nature of asset holding					
Owned	546,275	27,958	146,354	1,619	722,206
Finance Lease	-	-	-	-	-
PFI	-	-	-	-	-
	546,275	**27,958**	**146,354**	**1,619**	**722,206**

	Investment Assets	Assets Under Construction	Assets Awaiting Disposal	Total Non Operational Assets	Intangible Assets	Total Fixed Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
As at 31 March 2008 (previously reported)	3,927	12,924	6,346	23,197	7,749	905,857
Adjustment for Voluntary Aided Schools	-	-	-	-	-	(45,772)
As at 1 April 2008 (restated)	3,927	12,924	6,346	23,197	7,749	860,085
Additions	-	31	45	76	666	67,016
Donations	-	-	-	-	-	-
Disposals	-	-	(438)	(438)	-	(5,293)
Reclassifications	-	-	2,836	2,836	-	-
Revaluations	-	-	1,066	1,066	-	15,079
Impairments	(1,927)	-	(1,201)	(3,128)	-	(32,011)
At 31 March 2009	2,000	12,955	8,654	23,609	8,415	904,882
Depreciation						
As at 31 March 2008 (previously reported)	-	-	(542)	(542)	(2,696)	(142,689)
Adjustment for Voluntary Aided Schools	-	-	-	-	-	6,089
As at 1 April 2008 (restated)	-	-	(542)	(542)	(2,696)	(136,600)
Charge for 2008/09	-	-	(119)	(119)	(1,090)	(30,119)
Disposals	-	-	159	159	-	3,815
Reclassifications	-	-	(188)	(188)	-	-
Revaluations	-	-	56	56	-	7,832
Impairments	-	-	-	-	-	-
At 31 March 2009	-	-	(634)	(634)	(3,786)	(155,072)
Balance Sheet amount at 31 March 2009	**2,000**	**12,955**	**8,020**	**22,975**	**4,629**	**749,810**
Balance Sheet amount at 31 March 2008	**3,927**	**12,924**	**5,804**	**22,655**	**5,052**	**723,484**
Nature of asset holding						
Owned	2,000	12,955	8,020	22,975	4,629	749,810
Finance Lease	-	-	-	-	-	-
PFI	-	-	-	-	-	-
	2,000	**12,955**	**8,020**	**22,975**	**4,629**	**749,810**

Intangible Assets represent purchased software licences and are valued at acquisition cost and written off over the period of the licence. The County Council has no intangible asset trademarks, artistic originals or patents.

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, investment assets, assets under construction and community assets.

The County Council does not have a Housing Revenue Account (HRA) which accounts for the provision for housing accommodation, so all net assets employed by the County Council relate to the General Fund.

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
Intangible Assets (software licences)	Length of licence agreement
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. The Council Council also reviews the asset register each year, and, if necessary adjusts 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 County Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by an external firm of valuers - Wilks, Head and Eve (a member of Chartered Surveyors and Town Planners), on behalf of the County Council.

Operational Assets	Land and Buildings	Vehicles Plant and Equipment	Infra-structure Assets	Community Assets	TOTAL
	£000	£000	£000	£000	£000
Valued at historical cost	142,916	64,851	211,463	1,025	420,255
Valued at current value in:					
2008	92,376	(36,746)	(65,109)	-	(9,479)
2007	39,787	(147)	-	-	39,640
2006	101,730	-	-	-	101,730
2005	121,682	-	-	-	121,682
2004	47,784	-	-	594	48,378
Total	**546,275**	**27,958**	**146,354**	**1,619**	**722,206**

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:

Non Operational Assets	Investment	Assets under Construction	Assets Awaiting Disposal	Total
	£000	£000	£000	£000
Valued at historical cost	1,927	12,955	1,635	16,517
Valued at current value in:				
2008	73	-	3,359	3,432
2007	-	-	543	543
2006	-	-	695	695
2005	-	-	-	-
2004	-	-	1,143	1,143
Bentley contents	-	-	645	645
Total	**2,000**	**12,955**	**8,020**	**22,975**

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, which represents a valuation of these assets previously shown in the accounts as carried out by Sotheby's in March 2004. While the County Council is about to commission a new valuation of these assets, a review of relevant documents has resulted in valuing the County Council share of these assets to be in the region of £645,000. In addition, the County Council is about to commence a dialogue with the appointed representatives, in the coming months, regarding Chattels over which the County Council retains ownership rights.

In the light of on-going economic recession, the County Council has carried out a review for impairment of all fixed assets to determine if the carrying amount of the fixed asset may not/be recoverable.

The County Council revalued in 2008/09 those investment properties and properties surplus to ESCC's requirement, which are not currently due for revaluation. In addition, it revalued every land and building asset . This is to determine if there has been any diminution in the value of assets due to the current economic climate and to ensure that the accounts do not include values that are completely erroneous following major and permanent changes in asset values. The outcome of the review is an additional £28m impairment charge into 2008/09 accounts.

21. Assets Held

An analysis of the assets freehold and leased is given below

	31 March 2008 (numbers) *(Restated)*		31 March 2009 (numbers)	
Schools	163		162	
Tutorial Units	3		3	
Maintained Youth and Community Centres	14		14	
Sports Centres	1		1	
Family and Children's Establishments	16		16	
Children's Centres**	8		23	
Other Education Buildings	4		4	
Travellers' Sites	5		5	
Principal Roads	346	km	359	Km
Other Roads	2,963	km	2,962	Km
Green Lanes	56	km	56	Km
Back Lanes	7	km	7	Km
Highways Depots and Sub Depots	6		6	
Vehicles and Plant	825		696	
Libraries	26		26	
County Records buildings	6		6	
County Offices	4		4	
Surplus Buildings	31		25	
Surplus Land (Area)*	36	Hectares	-	
Surplus Land (Number)	-		36	
Buildings held for development schemes*	18		-	
Land held for development schemes*	42	Hectares	-	
Country Parks	3		3	
Smallholdings*	63	Hectares	-	
Registrars' Offices	4		4	
Elderly Residential Establishments	11		-	
Elderly Day Centres	9		21	
Establishments for People with Disabilities	26		18	
Group Homes for People with Disabilities	-		20	
Other Social Services' Centres and Patch Offices	4		21	
Investment Properties	-		1	
Community Assets	-		9	

* included under surplus properties in 2008/09

The schools total at 31 March 2009 has been reduced by one as both Tilling Green and the Freda Gardham schools were closed during the year and replaced by a new Rye Primary school. The schools total at 31 March 2008 has been restated to exclude voluntary aided schools.

**New Children's Centres commissioned in 2008/09 include-

Churchwood Children's Centre
West St. Leonards Children's Centre
Silverdale Children's Centre
Red Lake Children's Centre
Pebsham Children's Centre
Peasmarsh Children's Centre
Rye Children's Centre
Battle Children's Centre
Devonshire Children's Centre
West Rise Children's Centre
Langney Children's Centre
Dunbar Children's Centre
Polegate Children's Centre
Newhaven Children's Centre
Lewes Chlidren's Centre
Robertsbridge Children's Centre

22. Future Capital Expenditure

The County Council plans to spend £650m on new assets or improvements in the next 5 years of which £489m is funded from external income such as government grants.

The approved capital programme shows that in 2009/10 the County Council plans to spend £99.9m. This amount includes £18m on new projects starting in 2009/10 and £22m on schemes within its continuing programme. The balance of £59.9 is shown against schemes, which were already in progress at 31 March 2009, which it is committed to completing in 2009/10, or later financial years.

Having adjusted for the actual outturn in 2008/09 and any slippage on projects, the total commitments and profile for schemes in progress at 31 March 2009 are shown below:

2009/10	2010/11	2011/12	2012/13	Total
£52.3m	£24.7m	£1.3m	£0.1m	£78.4m

Examples of the costs of completing some of the larger projects already underway at 31 March 2009 include:

Department/Scheme	**2009/10**	**2010/11**	**2011/12**	**Total**
	£m	**£m**	**£m**	**£m**
Adult Social Care				
Age Well - East Sussex	0.3	-	-	0.3
Linden Court - Phase 2	1.3	-	-	1.3
Milton Court	1.1	-	-	1.1
Chief Executives				
New Archive & Record Office	0.6	-	-	0.6
Travellers Sites Bridies Tan	0.8	-	-	0.8
Children's Services				
Bexhill High BSF	23.3	9.3	0.5	33.1
Beacon/Grove Park School	1.3	-	-	1.3
Children Centres & Extended Schools Programme	4.3	6.7	-	11.0
Fostering & Adoption Adaptations	0.4	0.1	-	0.5
Fair Play Pathfinder	1.5	-	-	1.5
Corporate Resources				
Next Generation Network	1.3	-	-	1.3
Microsoft Office	0.5	0.1	-	0.6
Back Office Systems	0.4	-	-	0.4
Transport and Environment				
*Bexhill & Hastings Link Road	0.9	-	-	0.9
Cuilfail Tunnel Refurbishment	1.6	-	-	1.6
Rationalisation of Highways Depots	0.2	-	-	0.2

*The cost for the link road shown above is for the first, pre-approval stage, the full remaining cost to completion is estimated at £89.2m

23. Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital Under Statute (previously known as Deferred Charges) represents 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). Revenue Expenditure Funded from Capital Under Statute is 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 2008/09, £7,203,245 of the County Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 18), and all was written off in the year the expenditure was incurred.

The investment in the Sussex Innovation Centre with a current value of £208,000 has been sold in line with the Surrender Agreement between East Sussex County Council, University of Sussex and Sussex Innovation Centre Development Ltd & Sussex Innovation Centre Management Ltd. Under this agreement, ESCC surrenders its shareholdings for a consideration of three pounds in exchange for a legal indemnity from Sussex Innovation Centre Ltd for a period up until 23/11/2034. The investment current book value of £208,000 in Sussex Innovation Centre has been written off to the Income and Expenditure Account as Revenue Expenditure Funded from Capital under Statute. This is in line with the previous annual charges of £16,000 into revenue and in compliance with the legislation, which allows such expenditure to be charged to the Income and Expenditure Account in accordance with the general provisions of the SORP.

24. Investments

The County Council has a 19% interest in Woodland Enterprises, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The total assets less current liabilities of the Company were £1,240,000 as at 31 March 2009. The legal liability of the County Council is limited to £1.

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. ESCC did not have any investments that are within a period between one to five years, which can be classified in the balance sheet as long-term investment.

25. Debtors

	31 March 2008 £000	31 March 2009 £000
Government Grants and VAT	4,245	4,927
Sundry debtors	18,353	16,612
	22,598	21,539
Adjustment for bad debts	(225)	(600)
Total	**22,373**	**20,939**

26. Cash and Bank Balances

	31 March 2008 £000	31 March 2009 £000	Movement £000
Cash in hand	140	178	38
Imputed cash adjustment for South Downs and primary care trusts	1,608	(593)	(2,201)
Accrued balance at bank and for third parties	(20,998)	(10,979)	10,019
Total excl cash in hand	**(19,390)**	**(11,572)**	**7,818**
Total including cash in hand	**(19,250)**	**(11,394)**	**7,856**

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 County 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 Authority, 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 2008 £000	31 March 2009 £000
East Sussex Fire and Rescue Authority	(8,912)	(4,240)
East Sussex Pension Fund	(2,829)	1,850
Trust Funds	(962)	(993)
Unpresented cheques and BACS payments	(8,295)	(7,596)
Accrued balance at bank and for third parties	**(20,998)**	**(10,979)**

The pooled bank balances at 31 March 2009 include £19.2m (£17.8m at 31 March 2008) relating to bank accounts operated by schools under local management arrangements.

27. Creditors

	31 March 2008	31 March 2009
	£000	£000
Central Government – Inland Revenue and Teachers' Pensions	9,402	9,807
East Sussex Pension Fund	2,611	2,984
Other creditors and accruals	58,783	54,050
Total	**70,796**	**66,841**

28. Borrowing Analysis

	31 March 2008	31 March 2009	Movement
	£000	£000	£000
Loans: Public Works Loan Board (carrying amount)	263,931	251,303	(12,628)
Accrued interest and FRS 26 Adjustment	1,184	1,231	47
Money Market Loans	6,450	12,900	6,450
Total long-term borrowing	271,565	265,434	(6,131)
Short-term borrowing	218	210	(8)
Total	**271,783**	**265,644**	**(6,139)**

Long term borrowing serviced by the County Council analysed by maturity:	31 March 2008	31 March 2009
	£000	£000
Maturing up to 2 years	1,425	1,210
Maturing between 2 to 5 years	16,474	1,318
Maturing between 5 to 10 years	24,382	21,747
Maturing in more than 10 years	229,284	241,159
Total	**271,565**	**265,434**

29. Provisions

	Opening Balance	Receipts in Year	Payments in Year	Closing Balance
	£000	£000	£000	£000
Adult Social Care legal costs	295	-	-	295
Independent Insurance	64	-	-	64
Insurance claims	3,212	844	(70)	3,986
Municipal Mutual Insurance	81	-	-	81
Redundancies	344	-	(291)	53
Section 117 liabilities	800	-	-	800
Learning Disability Care Costs	155	-	-	155
Schools/Hillcrest Restructuring	-	322	-	322
Total	**4,951**	**1,166**	**(361)**	**5,756**

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 2009 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 2009. However, it will be several years before the County Council's exact liability can be established.

The provision for insurance claims (Pre 1997 & Post 1997 liabilities) represents an estimate of the amounts, which the County Council will have to pay for claims arising before 31 March 2009, 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, since it is uncertain how much will be repaid and when, a provision has been set up to allow for the future repayment of all outstanding cases.

The provision for Adult Social Care 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.

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

Redundancy ASC – The application of the provision was to cover the costs associated with the specific costs relating to a Tribunal ruling for a member of staff.

Schools Restructure - The County Council supports schools in restructuring of staffing in order to address financial difficulties arising, for example, from reducing numbers of pupils, by meeting the costs of redundancies in approved circumstances. A major restructuring had been agreed in principle before 31 March 2009 although details of individual cases had not been finalised. Therefore, a provision was created in the 2008/09 to cover the estimated costs flowing from the decision to proceed with the restructuring.

30. Government Grants Deferred and Capital Contributions Deferred

	2007/08		2008/09	
	Grants	**Contributions**	**Grants**	**Contributions**
	£000	£000	£000	£000
Grants and contributions applied to capital investment	27,461	4,194	27,517	3,774
Credited to the Service Revenue Accounts	(6,410)	(1,436)	(7,972)	(698)
Total movement in reserve	21,051	2,758	19,545	3,076
Balance brought forward at 1 April	88,175	15,394	109,226	18,152
Balance carried forward at 31 March	**109,226**	**18,152**	**128,771**	**21,228**

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 until used to finance expenditure, and written down in line with depreciation and disposals.

The balance on the Unapplied Government Grants and Capital Contributions account as at 31 March 2009 was £38.38m (£21.88m at 31 March 2008). The balance includes government grants £29.73m (£15.68 at 31 March 2008), developer contributions £6.30m (£4.95m at 31 March 2008) and other capital contributions £2.35m (£1.25m at 31 March 2008).

31. Analysis of Movements in Reserves

	Balance Brought Forward (as previously reported)	Adj for VA Schools	Balance Brought Forward *(Restated)*	(Gains) / Losses	Transfers between Reserves	Balance Carried Forward
	£000	£000	£000	£000	£000	£000
Revaluation Reserve	(10,642)	1,675	(8,967)	(19,154)	348	(27,773)
Capital Adjustment Account	(351,448)	38,007	(313,441)	-	25,522	(287,919)
Usable Capital Receipts Reserve	(7,232)	-	(7,232)	-	2,405	(4,827)
Pension Reserve	169,813	-	169,813	87,134	5,646	262,593
County Fund balances	(17,423)		(17,423)	33,743	(34,186)	(17,866)
Financial Instruments Adjustment Account	1,285	-	1,285	-	1,762	3,047
Earmarked Reserves	(136,305)	-	(136,305)	-	(1,497)	(137,802)
Total net worth	**(351,952)**	**39,682**	**(312,270)**	**101,723**	**-**	**(210,547)**

This note analyses the movement in each reserve, and the total gains and losses shown above equals the total shown in the Statement of Total Recognised Gains and Losses. The movements on individual reserves are shown in more detail in the notes below. The opening balance has been restated to reflect the exclusion of the Voluntary Aided (VA) schools, which are legally owned by the church authorities. This is line SORP 2008 guidance and that the church authorities controls rights to the future economic benefits inherent in the school assets.

32. Revaluation Reserve

	2008/09
	£000
Gains/(losses) on revaluation of fixed assets	22,911
Impairments charged to revaluation reserve balance	(3,757)
Balances on disposal transferred to the Capital Adjustment Account	(356)
Other transfer from the Capital Adjustment Account	8
Net movement in reserve	18,806
Balance brought forward at 1 April 2008 (as previously reported)	**10,642**
Balance tfr to Capital Adjustment A/C – VA schools	(1,675)
Balance brought forward at 1 April 2008 (restated)	**8,967**

Balance carried forward at 31 March 2009	**27,773**

The balance brought forward at 1 April has been restated to reflect the exclusion of the Voluntary Aided (VA) schools, which are legally owned by the church authorities.

33. Capital Adjustment Account

	2008/09	
	£000	£000
Capital receipts set aside		
Usable receipts applied		3,071
Revenue resources set aside		
Capital expenditure financed from revenue	18,482	
Revenue Expenditure Funded from Capital Under Statute and Investment written down	(7,411)	
Grants and contributions deferred written down	8,670	
Provision for loan repayment, excluding depreciation	(18,956)	
		785
Amounts written off fixed asset balances for disposals		(1,471)
Impairments		(28,254)
Transfer of disposal gains from the revaluation reserve		347
Total movement in reserve		(25,522)
Balance brought forward at 1 April 2008 (as previously reported)		**351,448**
Adjustment for voluntary aided schools		(38,007)
Balance brought forward at 1 April 2008 (restated)		**313,441**
Balance carried forward at 31 March 2009		**287,919**

The Capital Adjustment Account contains:

- Depreciation and impairment losses posted out of the Statement of Movement on the General Fund Balance;
- Compensatory adjustments from the Revaluation Reserve to convert current value depreciation/impairment loss debits to historical cost;
- Book value of assets on disposal/decommissioning posted out of the Statement of Movement on the General Fund Balance;
- Transfer from Revaluation Reserve of revaluation gains for assets outstanding on disposal/decommissioning;
- Amortisations posted out of the Statement of Movement on the General Fund Balance;
- Capital receipts posted out of the Usable Capital Receipts Reserve;
- Direct revenue financing and Minimum Revenue Provision/loan repayments debited to the Statement of Movement on the General Fund Balance;
- Minimum Revenue Provision/loan repayments;
- The amount released annually from the Government Grants Deferred Account (see Note 30 above);
- The amounts written down annually from Revenue Expenditure Funded from Capital under Statute and from the investment in the Sussex Innovation Centre.
- The opening balance has been restated to reflect the exclusion of the Voluntary Aided (VA) schools, which are legally owned by the church authorities. This is line SORP 2008 guidance and that the church authorities controls rights to the future economic benefits inherent in the school assets.

34. Usable Capital Receipts Reserve

	2007/08	2008/09
	£000	£000
Amounts receivable during the year	7,079	666
Amounts applied to finance new capital investment	(1,937)	(3,071)
Total increase/(decrease) in realised capital resources	5,142	(2,405)
Balance brought forward at 1 April 2008	2,090	7,232
Balance carried forward at 31 March 2009	**7,232**	**4,827**

Capital receipts are obtained either from sale of fixed assets such as land and buildings. 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
ASC Business Transformation Risk	929	300	(612)	617
ASC ICT Refresh	150	150	(300)	-
Capital Programme	45,400	5,023	(6,698)	43,725
CBOSS Development	594	-	-	594
Chief Executive ICT Refresh	137	85	(171)	51
Climate Change	-	150	-	150
Community Partnership	80	50	(36)	94
Corporate Waste	56,010	14,991	(10,453)	60,548
CSD ICT Refresh	237	-	(197)	40
Deferred Payments	405	-	-	405
Departmental Budgets	10,106	8,807	(10,106)	8,807
Developer Contribution Smoothing	-	175	-	175
Extended Schools (Community Facilities)	132	37	(14)	155
e-Government	1,150	532	(368)	1,314
High Weald	50	1	-	51
Insurance (from 1/4/97)	8,134	2,328	(2,397)	8,065
Insurance (to 31/3/97)	776	151	(433)	494
Invest To Save	1,300	742	-	2,042
Leisure Centres	314	18	-	332
Management Capacity	64	74	-	138
Map Digitisation	80	-	(44)	36
On-street car parking	40	295	(25)	310
Ouse Valley Commuted Maintenance	54	-	(25)	29
Pension Contributions	2,226	72	(1,000)	1,298
PFI Assets	4,038	642	-	4,680
Redundancies	2,442	508	-	2,950
Strategic Economic Development	378	-	(51)	327
Transport & Environment ICT Refresh	69	-	(43)	26
Travellers' Sites	135	25	-	160
Winter Maintenance	875	-	(686)	189
Total	**136,305**	**35,156**	**(33,659)**	**137,802**

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

ASC Business Transformation Risk	To meet potential unplanned costs arising from the transformation business processes within Adult Social Care.
ASC ICT Refresh	To provide for regular replacement of ICT equipment on a 4 year rolling programme.
Capital Programme	To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.
CBOSS Development	To meet the cost of developing the corporate back office systems and services.
Chief Executive ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in the Chief Executive's Department.
Climate Change	This should cover additional staffing costs, as well as the costs of joining the South East Climate Change Partnership, awareness-raising and training events and publications.
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 and where debt is deferred until their property is eventually sold. The Council 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 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.
Developer Contribution Smoothing	To smooth the impact of timing differences between the payment for works (funded by development) and the actual receipt of the developer contributions. Used in approved cases where the certainty of the development contribution is high but the works are required before all the contributions are received.
Extended Schools (Community Facilities)	For Community facilities run by Schools under the extended school programme.
e-Government	To provide funding for the support of the ICT development programme.
High Weald	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 County 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.
Management Capacity	To provide one-off funding to support priority corporate and department projects.
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 Commuted Maintenance	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.
Strategic Economic Development	To provide support for County Council projects that promotes economic development.
Transport & Environment ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in the Transport & Environment Department.
Traveller Sites	To provide resources for future investment in the sites managed by the County Council. The reserve may be used to meet revenue costs or by way of contributions to capital expenditure.
Winter Maintenance	To smooth the financial impact of variations between years in winter weather on road maintenance.

36. Contingent Liabilities and Assets

In 2006/07, there was a contingent liability of £800,000 in relation to a capital building contract, which has since been resolved through arbitration. Whilst final figures are currently being calculated, the liability is estimated not to exceed £60,000, which has been provided for within the County Council's resources.

Adult Social Care: De Fraine Section 117 Mental Health Act 1983. This is a Judicial Review matter which has been on going for a few years now where the claimant is seeking a refund from ASC of care home fees paid. The contingent liability should be set at £100k but the advice that we have from Counsel is that our case for resisting this is strong.

Contingent Assets re VAT claims - ESCC has instructed KPMG to pursue a claim for compound interest. A case has been heard at the High Court, which supported the taxpayer and ruled that HMRC should pay compound interest, but it is expected that HMRC will now appeal this ruling. ESCC are likely to receive around £1m if HMRC concede that interest should be calculated on a compound basis, the payment of the claim is contingent upon a matter that is beyond the County Council's control, i.e. HMRC agreeing the claim.

In September 2007 the County Council extended its Integrated Waste Management Services PFI contract with South Downs Waste Services Limited (Veolia) by 5 years to end in 2033. The County Council considers that it acted legally and in the interest of Council taxpayers. There has been a complaint to the European Commission about compliance with EU procurement rules and as a result the Commission has raised certain issues with the County Council. The Commission has decided to issue a letter of formal notice to the UK Government setting out its concerns. The UK Government has provided its response to the concerns raised by the Commission. The complaint could take some time to reach a conclusion. It is not possible to assess what the outcome of the complaint will be, nor the financial impact, if any, on the County Council.

37. Post Balance Sheet Events

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

38. Private Finance Initiatives

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 2009 and assuming a 2.5% inflation rate for the remaining life of the contract to 2025 the County Council has an undischarged liability of £85m

The County Council in conjunction with Brighton and Hove City Council entered into a 25 year agreement on the 31st March 2003, for the provision of an integrated waste management service with Southdown Waste Services Ltd. This agreement has now been extended by a further 5 years.

Based on a projected annual inflation rate of 2.5% the un-discharged liability on the contract for the remaining 24 years of the contract is projected at £855m.

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

	£000	£000
Deficit / (Surplus) for the year		33,723
Interest		(500)
Non-cash transactions		
Depreciation	(30,119)	
Impairments	(28,254)	
Government Grants/Capital Contributions Deferred	4,478	
Gain on sale of fixed assets	(804)	
Provisions set aside during year	(805)	
Social Care Debt	(99)	
Pensions Reserve	(5,646)	(61,249)
Changes in accruals		
Increase / (decrease) in Long term debtors	527	
Increase / (decrease) in Stocks and work in progress	(83)	
Increase / (decrease) in Payments in advance	(1,270)	
Increase / (decrease) in Landfill allowances	57	
Increase / (decrease) in Debtors	(8,371)	
(Increase) / decrease in Creditors	5,199	
(Increase) / decrease in Income in advance	(9,916)	(13,857)
Net Revenue Activities		(41,883)

40. Government Grants

Grant income included in Revenue Account and Cash Flow Statement

	Revenue Account £'000	Adjust for Accruals £'000	Cash Flow Statement £'000
Department for Children, Schools and Families	(322,961)	(760)	(323,721)
Department for Transport	(124)	103	(21)
Department of Health	(2,268)	2,352	84
Department for Communities and Local Government	(17,138)	622	(16,516)
Department for Environment Food and Rural Affairs	(1,534)	(42)	(1,576)
Home Office	(1,549)	373	(1,176)
Other Government departments	(23,969)	332	(23,637)
Total	**(369,543)**	**2,980**	**(366,563)**

Adjustment for Accruals at 31 March 2008

	Debtors	Income in Advance	Creditors	Total
Balance 1 April	904	(6,256)	0	(5,352)
Balance 31 March	2,165	(4,646)	0	(2,481)
Net Difference	1,261	1,610	0	2,871
Adjust for LATS Grant				109
Net Adjustment				**2,980**

The debtors balance as 1/4/08 has been restated from £1.614m to £0.904m

As explained in the Statement of Accounting Policies (paragraph 23), under the Landfill Allowances Trading Scheme (LATS) 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.

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 County 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 2007/08 £000 *(Restated)*	Income in Year £000	Expenditure in 2008/09 £000	Closing Balance £000
Sole trustee funds				
Music Trust	736	2	(17)	721
Robertsbridge Youth Centre	100	6	(4)	102
Lewes Educational Charity	46	1	(4)	43
How Scholarship	3	-	-	3
Wright Legacy	2	-	-	2
Total sole trustee funds	887	9	(25)	871
Ashdown Forest Trust	1,413	67	(70)	1,410
General trust funds	111	7	-	118
Bequests	116	3	-	119
Voluntary funds	15	9	(10)	14
Comforts funds	50	14	(23)	41
Safe Custody	751	1,560	(1,489)	822
Total trust funds	**3,343**	**1,669**	**(1,617)**	**3,395**

The opening balance has been amended by £6,000 (from £3,337,000 in 2007/08 to £3,343,000 in 2008/09), to reflect accurate reconciliation to the figures on the County Council's financial management system.

42. Euro Costs

The County Council has reviewed the impact of the European Single Currency ("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.

43. Dedicated Schools Grant

The County Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools' Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' 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. Overspends and underspends on the two elements are required to be accounted for separately. The County Council is able to supplement the Schools' Budget from its own resource and this year programmed an additional £1.9m spending by schools.

Details of the deployment of the Dedicated Schools' Grant:

	2007/08	2008/09		
	Total £000	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools' Budget for the current year in the authority's budget	248,661	38,169	219,288	257,457
Adjustment to finalised grant allocation	762	(90)	-	(90)
Carry-over of DSG	2,380	2,786	-	2,786
DSG receivable for the year	251,803	40,865	219,288	260,153
Actual expenditure for the year	(247,918)	(41,423)	(219,216)	(260,639)
(Over)/underspend for the year	3,885	(558)	72	(486)
Planned top-up funding for ISB from County Council resources	916	1,882	-	1,882
Use/transfer of schools balances	(2,015)	298	(72)	226
(Over)/underspend from prior year	-	-	-	-
(Over)/underspend carried forward	**2,786**	**1,622**	**-**	**1,622**

School Reserve

The total value of the Individual Schools' Budget (the budget which is delegated to schools) for 2008/09 was £230.0 million. Schools carried forward (reserve) a net total of £10.4 million (4.5%) at the end of the financial year to 31 March 2009, which was a decrease of £0.3m compared to 31 March 2008. Table below shows the numbers and value of schools with surpluses and deficits.

		Primary	Secondary	Special	Total
All schools with surpluses					
Number of schools	**No.**	**127**	**20**	**10**	**157**
Total surplus	£000	5,092	5,985	987	12,064
All schools with deficits					
Number of schools	**No.**	**30**	**7**	**-**	**37**
Total deficit	£000	(994)	(504)	-	(1,498)
Carry forward	**£000**	**4,098**	**5,481**	**987**	**10,566**
Less Capital Loan to Schools	£000	10	114	51	175
Net carry forward	**£000**	**4,088**	**5,367**	**936**	**10,391**

This reserve represents unspent balances remaining at the year-end against schools' delegated budgets (the number of schools above include church aided schools, which are legally owned by the church authorities). The main reasons why schools hold balances are – anticipation of future budget pressures usually arising from pupil number variation, to fund specific projects such as building work and IT and to hold a contingency for reasons of prudence. These balances are committed to be spent on the education service and are not available to the County Council for general use.

44. Area Based Grant (ABG)

From April 2008, and for the County Council, 36 former specific grants were grouped together as a new "Area Based Grant" or ABG. Area Based Grant builds on the success of (Local Area Agreement) LAA grant by further increasing local flexibility over the use of resources, and further reducing onerous reporting requirements. This grant is non-ringfenced, but unlike general formula grant, allocations are according to specific policy area rather than general grant formulae. The grant was announced for three years, for the County Council as follows:

Policy Area	2008/09 £000	2009/10 £000	2010/11 £000
Adult Social Care	10,697	10,630	22,100
Chief Executive	860	861	861
Children's Services	10,368	11,528	10,895
Transport & Environment	1,792	1,887	1,927
Total Area Based Grant	**23,717**	**24,906**	**35,783**

Government guidance on Area Based Grant indicates that ABG will be accounted for as a "general" grant and included with "general" sources of income such as council tax and formula grant. This will not affect council tax, but it will increase the gross expenditure of services when calculating the County Council's budget requirement.

The Government has advised local authorities of the particular specific grant amounts included within ABG (i.e. for this spending review period only). This enables the County Council to allocate ABG according to current service needs, based on the existing specific grants absorbed. Ultimately, there is no expectation to use ABG to support the objectives of these former specific grants. There is also no restriction about carrying forward unspent ABG.

45. Financial Instruments Gains and Losses

		Financial Liabilities	**Financial Assets**			
	Total [Restated]	Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Fair value through the I&E	Total
	2007/08 £'000	2008/09 £'000	2008/09 £'000	2008/09 £'000	2008/09 £'000	2008/09 £'000
Interest expense	(16,787)	(16,298)	-	-	-	(16,298)
Losses on derecognition	(86)	(885)	(375)	-	-	(1,260)
Impairment losses	-	-	-	-	-	-
Interest payable and similar charges	(16,873)	(17,183)	(375)	-	-	(17,558)
Interest income	15,793		13,000			13,000
Gains on derecognition	83	-	-	-	-	-
Interest and investment income	15,876	-	13,000	-	-	13,000
Gains on revaluation	-	-	9	-	-	9
Losses on revaluation	(9)	-	(208)	-	-	(208)
Amounts recycled to the I&E account after impairment	-	-	-	-	-	-
Surplus arising on revaluation of financial assets	(9)	-	(199)	-	-	(199)
Net gain / (loss) for the year	(1,006)	(17,183)	12,426	-	-	(4,757)

The net total of financial liabilities and assets in 2007/08 has been restated to include interest expense and interest income totals.

46. Disclosure of nature and Extent of Risk Arising from Financial Instruments

Key Risks

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

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

Overall Procedures for Managing Risk

The County Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing strategies and policies to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the County Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall, these procedures require the County Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
    - The County Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the County Council's annual Council Tax setting budget. These items are reported with the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the County Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. The County Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit risk

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

This risk is minimized through the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Treasury Management Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The County Council's Treasury Management is kept under constant review and due to the exceptional risks of the international financial crisis the strategy was amended a few times in 2008/09.

The following analysis summarises the Authority's maximum exposure to credit risk. The table, from Fitch, gives details of global corporate finance average default rates (including financial organizations) for the period 1990 – 2007 on investments out to 5 years.

	Amount at 31 March 2009	Historical experience of default	Estimated maximum exposure to default
	£'000	%	£'000
	a	b	(a * b)
Deposits with banks and financial institutions			
AAA rated counterparties	139,100	0.00%	-
AA rated counterparties	98,900	0.06%	59
AA rated counterparties	-	0.65%	-
Total	**238,000**		**59**
Debtors	18,177	0.00%	-
Total	**256,177**		**59**

No breaches of the County Council's counterparty criteria occurred during the reporting period. In October 2008, the Icelandic banking sector defaulted on its obligations but the County Council had no funds invested in this sector. As at 31 March 2009 the County Council's investments included £228 million with UK banks and £10 million with a Canadian bank (Note – the £10m Canadian bank investment has subsequently been repaid on maturity in April 2009). The County Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Whilst the current credit crisis in international markets has raised the overall possibility of default the County Council maintains strict credit criteria for investment counterparties. The credit criteria in respect of financial assets held by the authority at 31 March 2009 are detailed below:

- Up to £120 million maximum, deposited on an overnight basis only, with any of the following up to the individual limit of £35 million – Barclays, Lloyds TSB, Nat West, Abbey, AAA rated Treasury Backed Money Market Funds, AAA rated Money Market Funds;

- Only Banks which are eligible for the Government's Credit Guarantee Scheme and meet the following minimum rating criteria to be used (with the exception of the County Council's existing bankers Nat West).;

	Long Term	Short Term
Ratings Agency		
Fitch	AA-	F1+
Moody	AA3	P-1
Standard & Poors	AA-	A-1+

- Any balances in excess of £120 million to be deposited with HM Treasury's Debt Management Office.

The County Council does not formally allow credit for its trade debtors. The total due amount can be analysed by age as follows:

	£000
Less than three months	7,967
Three to five months	4,205
Five months to one year	1,123
More than one year	1,193
Total	**14,488**

The County Council initiates a legal charge on property where, for instance, clients require the assistance of Adult Social Services but cannot afford to pay immediately. The total collateral at 31 March 2009 was £1.48 million.

Liquidity risk –

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

The County Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The County Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk –

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

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the County Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	£000
Less than one year (current liabilities)	90,550
Between one and two years	38,380
Between two and seven years	7,908
Between seven and fifteen years	35,290
More than fifteen years	221,023
	393,151

The maturity analysis of financial assets is as follows:

	£000

Less than one year (current assets)	263,989
Between one and two years	5,409
Between two and three years	-
More than three years	-
	269,398

All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk –

In terms of exposure to interest rate changes on amounts borrowed, the County Council has little direct exposure as almost all of its borrowings are fixed interest rates. Rises in interest rates would reduce the fair value of the borrowings but as borrowings are not carried at fair value in the Balance Sheet any such nominal gains and losses would not impact on the Income and Expenditure account or Statement of Total Recognised Gains and Losses.

Exposure to interest rate changes is greater for investments because the County Council's investments have a much shorter maturity profile (with overnight lending reflecting daily interest rate changes) and because some of the investments are at variable or semi–variable interest rates. Movements in the fair value of fixed rate investments will be reflected in the Statement of Total Recognised Gains and Losses and changes in the interest received on variable rate borrowing will be posted to the Income and Expenditure account and affect the Balance Fund balance.

The County Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the County Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy, a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately.

Using the investments and loan liabilities shown in the Balance Sheet as at 31 March 2009, the impact of a 1% rise in interest rates would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	689
Impact on Income and Expenditure Account	689
Increase in Government grant receivable for financing costs	-
Impact on STRGL	689
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	-

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure (£689,000) represents the immediate impact on the Council Council investments that are on variable rate, but ignores the impact of overnight and short-term fixed rate investments. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

Price risk - The County Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

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

47. Reconciliation of the movement in Cash to Net Debt

	£000
Increase in cash in the period	7,856
Cash inflow from decrease in debt financing	6,180
Cash outflow from increase in liquid resources	(12,278)
Movement in net debt	**1,758**
Net Debt as at 1 April 2008	(39,373)
Net Debt as at 31 March 2009	**(37,615)**

The net debt figure at 1 April 2008 has been restated from £37.811m that was previously reported to correctly reflect the balances in the Balance Sheet that were reported at that time.

	Balance 01 April 2008 £000	Cash Flow £000	Balance 31 March 2009 £000
Analysis of Net Debt			
Cash in Hand	140	38	178
Bank Overdraft	(19,390)	7,818	(11,572)
Long Term Borrowing	(270,402)	6,180	(264,222)
Short Term Investments	200,070	37,930	238,000
Long Term Investments	50,209	(50,208)	1
	(39,373)	**1,758**	**(37,615)**

48. Reconciliation of items under the Financing and Management of Liquid Resources to the opening and closing Balance Sheets

The movement in financing is analysed below:

	Balance 01 April 2008 £000	Cash Flow £000	Balance 31 March 2009 £000
Short Term Borrowing	(219)	8	(211)
Long Term Borrowing	(270,402)	6,179	(264,223)
Total Financing	**(270,621)**	**6,187**	**(264,434)**

The movement in liquid resources is analysed below:

	Balance 01 April 2008 £000	Cash Flow £000	Balance 31 March 2009 £000
Short Term Investments	200,070	37,930	238,000
Long Term Investments	50,209	(50,208)	1
Total Liquid Resources	**250,279**	**(12,278)**	**238,001**

Liquid resources comprise short term deposits of surplus balances (less than one year) and other liquid resources that are longer term investments (greater than one year).

Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. The scheme has recently been subject to revision with the rules of the scheme split between two separate sets of regulation; the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, both of which came into force on 1 April 2008, and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, set up for the benefit of local government employees the LGPS is in fact administered locally. The LGPS is open to all employees of the County Council, District, Borough and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”.

In addition, the Scheme allows employees of private contractors to remain in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

Currently within the East Sussex Pension Fund there are 60 participating employers. A full list of participating employers is given in note 9.

2007/08 £000 (Restated)	2007/08 £000 (Restated)	See Note	PENSION FUND ACCOUNT	2008/09 £000	2008/09 £000
		9	**Contributions**		
67,213			From Employers	73,870	
23,086	90,299		From Employees or Members	26,460	100,330
	9,160		Transfers in		7,994
	99,459				**108,324**
	72,676	9	**Benefits**		80,126
	6,089		Payments to and on account of leavers		5,033
	1,347	14	Administrative expenses		1,400
	80,112				**86,559**
	19,347		**Net Additions / (Withdrawals) from dealings with members**		**21,765**
			Returns on investments		
	40,995	6	Investment income		24,746
	(85,192)	7	Change in market value of Investments		(338,310)
	(234)		Taxation		(519)
	(4,920)	14	Investment management expenses		(3,761)
	(49,351)		**Net returns on investments**		**(317,844)**
	(30,004)		**Net Increase / (Decrease) in fund during the year**		(296,079)
	1,708,070		**Add Opening Net Assets of the scheme**		1,678,066
	1,678,066		**Closing net assets of the scheme**		**1,381,987**

2007/08 £000 (Restated at Bid)	2007/08 £000 (Restated at Bid)	NET ASSETS STATEMENT			2008/09 £000	2008/09 £000
		Investments (at Bid Price)				
68,882		Fixed interest securities		- Public Sector	4,102	
119,280	188,162			- Other	130,350	134,452
105,207		Equities Segregated		- UK	109,325	
361,512				- Overseas	203,054	
52,789	519,508		Unlisted	- Overseas	69,572	381,951
11,247		Index Linked Securities		- Public Sector	-	
24,630	35,877			- Other	9,428	9,428
		Pooled Investment Vehicles				
155,897			Unit Trusts	- Property	110,032	
526,622				- Equities	610,876	
49,369	731,888		Partnerships	- Infrastructure	38,982	759,890
	190,171	Cash deposits				90,917
	25,789	Other Investment balances				15,781
	1,691,395					**1,392,419**
	(21,931)	**Investment liabilities**				(15,063)
	10,087	**Current assets**				7,721
	(1,485)	**Current liabilities**				(3,090)
	1,678,066					**1,381,987**

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 2008/09.

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 2009

Notes to the East Sussex Pension Fund Accounts

1. Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as other benefits. As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund's external investment managers. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council's Governance Committee.

The County Council has contracted SERCO to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SERCO include maintenance of scheme members records, calculation and payment of retirement benefits and premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund's Actuary.

Although the day to day work associated with administering the LGPS has been passed to SERCO, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SERCO undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participant employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. In 2002 the County Council established an annual employers' pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

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 was updated from 31March 2008. East Sussex County Council, as the administering authority, were required to publish by 31 March 2006 its approach to pension scheme management (governance of the Investment Panel) and scheme communication. The East Sussex Pension Fund Governance Compliance Statement was published in February 2008 and shows that the Fund is fully compliant with all the best practice principles issued in the recent guidance issued by the Secretary of State. Copies of these policy statements and the annual accounts report are available from the Deputy Chief Executive and Director of Corporate Resources.

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.

2. Accounting Policies and Basis of Preparation

These accounts have been prepared in accordance with section 2 of the .Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes' (revised May 2007) and the 2008 SORP 'A Code of Practice on Local Authority Accounting in Great Britain'. The Fund has adopted the revised Pensions SORP 2007. As a result investments previously valued at mid prices are now valued at bid or offer prices for assets where there is a bid/offer spread. The comparatives for 2007/08 have therefore been restated in the Net Assets Statement and the notes to the accounts. The accounts summarise the transactions and net assets of the Scheme.

The accounting policies for the Pension Fund accounts are the same as those used for the County Council, as set out on pages 16 to 20. 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 value at 31 March 2009. The sources of valuation are as follows:

- Where available, all assets are priced at bid (the price a dealer is prepared to pay for a security).
- Northern Trust uses a number of established vendors for pricing equities and fixed income regardless of the market the security is traded in.
- The Private Equity investments are valued quarterly in arrears and are shown in the net assets statement as Equities-Unlisted Overseas.
- Unitised funds` prices are also sourced from a number of vendors as well as the Investment Manager.
- Non-sterling priced assets are priced in the local currency and converted to sterling at the WM/Reuters 4pm foreign exchange rate.
- All gains and losses arising on derivative contracts are reported in the 'Reconciliation of Movement in Investments'
- Brokers commissions and other costs of acquisition are included in the cost of investments purchased.

3. Actuarial Position

The latest actuarial valuation of the Fund was carried out as at 31 March 2007. The purpose of the triennial 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 2007 valuation shows the Fund has a past service deficit, being 89% funded in respect of past liabilities. This compares with 84% funded at the 2004 valuation. 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 89% compares with an average of 83% for all County Council funds and places East Sussex in joint 5th position out of thirty four funds. This means that the employer contribution rate only needs to go up by 1% over the next 3 years for the majority of the East Sussex Fund's employers. The contribution rates paid by each employer participating in the fund for 2008/2009 are shown at note 8.

The contribution rates as described are calculated to be sufficient to cover 100% of the Funds Liabilities. With effect from 1 April 2008 the Common Rate of Contribution was 18.8% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, and an additional 3.6% in respect of the past service deficit resulting from past investment underperformance.

Summary of Methods and Assumptions Used

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2008.

My opinion on the security of prospective rights is based on the Projected Unit Method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

Since assets were taken into account at their market value it is appropriate for me to take a lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The stream of future liability payments is converted into a capital value today by assuming a return on Fund assets of 6.1% a year. The anticipated returns on assets are set by reference to the prevailing returns available on investing in the Government bond market. Long-term returns of 1.6% a year more than Government bonds are anticipated.

The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:

Investment Return	Nominal
Equities	6.1%
Bonds	4.50%
Pay Increases	4.70%
Price inflation/Pension Increases	3.2%

4. Fund Managers

The market value (at Bid) of the investments as at 31 March 2009 which were under the management of fund managers and the proportion managed by each manager:

Manager	2008 £m	2008 %	2009 £m	2009 %
UBS	362.2	21.7	114.6	8.3
Capital	189.7	11.3	11.7	0.8
Fidelity	330.9	19.9	346.6	25.2
Prudential M&G	168.4	10.1	145.0	10.5
Harbourvest	24.6	1.5	30.2	2.2
Adams Street Partners	28.2	1.7	39.3	2.9
Northern Trust Cash	176.6	10.6	84.7	6.2
UBS Infrastructure	17.6	1.1	13.9	1.0
Prudential Infrastructure	31.8	1.9	25.1	1.8
Legal & General	336.7	20.2	563.1	40.9
Alliance Bernstein	-	-	2.4	0.2
Restate adjustment	(1.1)	-	-	-
Total	**1,665.6**	**100.0**	**1,376.6**	**100.0**

The overall annual rate of return achieved by the Fund is minus 18.5% compared with the Funds benchmark return of minus 20.7%.

5. Analysis of Investments

Description	31/03/08 £m	(of which unquoted) £m	31/03/09 £m	(of which unquoted) £m
UK	1,060.4	(49.4)	737.9	(39.0)
Foreign	605.2	(52.8)	638.7	(69.6)
	1,665.6	(102.2)	1,376.6	**(108.6)**
Other Investment balances	25.8	-	15.8	-
	1,691.4	**(102.2)**	**1,392.4**	**(108.6)**

Largest Holdings

Name	Investment Type	£m	%
Legal & General UK Equity Index	Unit Trust Equity (Passive)	244.8	17.6
Legal & General World Equity Index	Unit Trust Equity (Passive)	89.8	6.4
Legal & General S N. America Equity Index	Unit Trust Equity (Passive)	81.9	5.9
M&G	Unit Trust Property	63.7	4.6

Only three holdings represented over 5% of the total value of the net assets of the scheme.

6. Investment Income Table

	2007/08 £000	2008/09 £000
Income From Fixed Interest Securities	3,779	1,007
Dividends from Equities	21,633	13,024
Income from index linked securities	163	70
Income from pooled investment vehicles	2,360	2,389
Securities Lending	236	161
Commission Recapture	15	12
Interest on cash deposits	12,575	7,564
	40,761	**24,227**
Irrecoverable Withholding tax	234	519
Total Investment Income	**40,995**	**24,746**

7. Investment

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include the costs charged directly to the scheme such as fees, commissions, and stamp duty. Transaction costs incurred during the year amounted to £1.567m (£1.910m 2007/08). In addition, indirect transaction costs are also incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Reconciliation of Movement in Investments

	Value at 2007/08 £000	Purchases at cost & Derivative Payments £000	Sales Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 2008/09 £000
Fixed Interest Securities	188,162	48,949	(85,059)	(17,600)	134,452
Equities	519,508	490,561	(533,432)	(94,686)	381,951
Index Linked Securities	35,877	946	(26,648)	(747)	9,428
Pooled Investment Vehicles	731,888	258,325	(18,408)	(211,915)	759,890
	1,475,435	**798,781**	**(663,547)**	**(324,948)**	**1,285,721**
Cash Deposits	190,171	4,202	(100,102)	(3,354)	90,917
Other Investment balances	25,789			(10,008)	15,781
	1,691,395	**802,983**	**(763,649)**	**(338,310)**	**1,392,419**

	Value £000	Value £000
Fixed Interest Securities	**2007/08**	**2008/09**
UK Public Sector Quoted	68,882	4,102
UK Corporate Quoted	119,280	130,350
Overseas Corporate Quoted	-	-
	188,162	**134,452**
Equities	**2007/08**	**2008/09**
UK Quoted	105,207	109,325
UK Unquoted	-	-
Overseas Quoted	361,512	203,054
Overseas Unquoted	52,789	69,572
	519,508	**381,951**

Index Linked Securities	2007/08	2008/09
UK Public Sector Quoted	11,247	9,428
Overseas Public Sector Quoted	24,630	-
	35,877	**9,428**

Pooled Investment Vehicles		2007/08	2008/09
UK Unit Trusts	-Property	155,897	110,032
	-Other	526,622	610,876
Partnerships	-Infrastructure	49,369	38,982
		731,888	**759,890**

Cash Deposits	2007/08	2008/09
Sterling	190,171	90,917
Foreign Currency	-	-
	190,171	**90,917**

Investment Assets (Other Investment Balances)

	2007/08 £000	2008/09 £000
Sales inc currency	21,646	13,705
Investment Income Due	3,668	1,199
Recoverable Taxes	432	833
Managers Fees rebate	43	44
Total	**25,789**	**15,781**

8. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio by without disturbing the underlying assets.

At 31 March 2009, the M&G Portfolio held a long dated Gilts Future with an economic exposure of £10.972m (Unrealised market gain £90k). The open index futures at 31 March 2009 is shown in the table below. No other derivatives were held by the Fund.

Type of Future	Number of Contracts	Expiration	Economic Exposure Value £000	Market Value £000
UK Gilt exchange traded	1	Within 1 year	10,972	90
			10,972	**90**

9. Authorities in the Fund

	Contribution Rates		
	2008/09 %	2009/10 %	2010/11 %
Administering Authority			
East Sussex County Council	17.5%	17.8%	18.1%
Scheduled Bodies			
Brighton & Hove City Council	16.4%	16.7%	17.0%
Eastbourne Borough Council	20.6%	20.9%	21.2%

Eastbourne Buses	33.1%	-	-
Hastings Borough Council	20.2%	20.5%	20.8%
Lewes District Council	18.9%	19.2%	19.5%
Rother District Council	22.1%	22.4%	22.7%
Wealden District Council	19.8%	20.1%	20.4%
East Sussex Fire & Rescue Service	18.2%	18.3%	18.4%
Battle Town Council	18.0%	18.3%	18.6%
Bexhill 6th Form College	14.9%	15.2%	15.5%
City College Brighton	16.2%	16.5%	16.8%
Brighton Hove & Sussex 6th Form College	14.9%	15.2%	15.5%
Chailey P C	18.0%	18.3%	18.6%
Conservators of Ashdown Forest	18.0%	18.3%	18.6%
Crowborough Town Council	18.0%	18.3%	18.6%
East & West Sussex Valuation Tribunal	18.0%	18.3%	18.6%
Sussex Probation Board	20.0%	20.0%	20.0%
Sussex Downs College	13.7%	14.1%	14.5%
Forest Row Parish Council	18.0%	18.3%	18.6%
Hailsham Town Council	18.0%	18.3%	18.6%
Hastings College of Arts & Technology	15.4%	15.7%	16.0%
Heathfield & Waldron Parish Council	18.0%	18.3%	18.6%
Lewes Town Council	18.0%	18.3%	18.6%
Maresfield Parish Council	18.0%	18.3%	18.6%
Newhaven Town Council	18.0%	18.3%	18.6%
Peacehaven Town Council	18.0%	18.3%	18.6%
Plumpton College	14.9%	15.2%	15.5%
Polegate Town Council	18.0%	18.3%	18.6%
Ringmer Parish Council	18.0%	18.3%	18.6%
Rye Town Council	18.0%	18.3%	18.6%
Seaford Town Council	18.0%	18.3%	18.6%
Sussex Sea Fisheries District Committee	18.0%	18.3%	18.6%
Telscombe Town Council	18.0%	18.3%	18.6%
Uckfield Town Council	18.0%	18.3%	18.6%
University of Brighton	15.1%	15.4%	15.7%
Varndean 6th Form College	14.9%	15.2%	15.5%
Willingdon & Jevington Parish Council	18.0%	18.3%	18.6%
Chiddingly Parish Council	18.0%	18.3%	18.6%
Admitted Bodies			
1066 Housing Association	29.9%	29.9%	29.9%
Hove & Portslade Citizens Advice Bureau	18.0%	18.5%	19.0%
Sussex Lantern	18.0%	18.5%	19.0%
Rother Homes	29.9%	29.9%	29.9%
SEERA	12.5%	12.8%	13.1%
Sussex Archaeological Society	18.0%	18.5%	19.0%
Sussex Careers Services Ltd	16.1%	-	-
Sussex Housing And Care	18.0%	18.5%	19.0%
University of Sussex	18.0%	18.5%	19.0%
Freedom Leisure	13.3%	13.6%	13.9%
Commission for Social Care & Inspection	19.5%	20.1%	20.7%
Centre for British Teachers	13.0%	13.3%	13.6%
Jarvis Workspace FM	17.0%	18.4%	19.8%
Connexions Sussex	10.3%	9.7%	9.1%
De La Warr Pavillion Trust	15.2%	16.4%	17.6%
RBLI	15.0%	15.5%	18.5%
Eastbourne Leisure Trust (Serco)	8.4%	8.7%	9.0%
Convex Leisure	13.1%	13.4%	13.7%
Wealden & Eastbourne Lifeline (WELL)	16.0%	16.3%	16.6%
Eastbourne Homes	14.8%	15.9%	17.0%
May Gurney	18.6%	18.7%	18.8%
Wave Leisure	11.3%	12.6%	13.8%
Sussex County Sports Partnership	15.8%	15.8%	15.8%

The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2009 is detailed below

	March 2008	March 2009
Contributors	21,633	21,550
Pensioners	13,095	13,644
Deferred Members	16,138	17,357

10. Analysis of Contributions

The normal contribution rates that are paid by participating employers in the Fund cover the cost of benefits relating to future service, and correcting any deficit identified at the latest actuarial valuation over a specified number of years.

The deficit funding in total for all participating employers is shown on the table below.

Contribution rates and benefits payable are set out in statutory regulations

CONTRIBUTIONS	2007/08 £000	2008/09 £000
Employers Normal	(66,666)	(63,496)
Deficit funding	-	(9,181)
Augmentation	(547)	(1,193)
Members Normal	(23,086)	(26,460)
Total	**(90,299)**	**(100,330)**

All transfers (£7,994m) are individual transfers i.e. there are no group transfers.

BENEFITS PAYABLE	2007/08 £000	2008/09 £000
Pensions	55,404	59,405
Commutations & Lump Sums	16,357	19,249
Lump Sums Death Benefits	915	1,472
Total	**72,676**	**80,126**

	2007/08		2008/09	
	Contributions Receivable £m	Benefits Payable £m	Contributions Receivable £m	Benefits Payable £m
Administrative Authority	31.7	28.7	37.6	31.2
Scheduled Bodies	55.7	42.3	60.5	46.9
Admitted Bodies	2.9	1.7	2.2	2.0
	90.3	**72.7**	**100.3**	**80.1**

Payments to & on account of leavers	2007/08 £000	2008/09 £000
Refunds of Contributions	22	11
Group transfers out to other schemes	-	-
Individual Transfers out to other schemes	6,067	5,022
Total	**6,089**	**5,033**

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2008/09 some members of the pension scheme paid voluntary contributions and transfers in of £1.237m to Prudential to buy extra pension benefits when they retire. £2.636m was disinvested from the AVC provider in 2008/09. (£1.620m 2007/08) The contributions are paid directly from scheme members to the AVC provider and are therefore not included in the Pension Fund Accounts. The combined value of the AVC funds at 31 March 2009 was £17.260m (2007/08 £17.040m).

11. Assets & Liabilities

	2007/08	2008/09
	£000	£000
Investment Liabilities (Other Investment Balances)		
Purchases inc currency	20,957	14,550
Managers Fees	974	513
Total	**21,931**	**15,063**
Current Assets		
Contributions (Ers & Ees)	7,149	7,415
Other Current Assets	109	306
Cash Balances (invested with ESCC)	2,829	-
Total	**10,087**	**7,721**
Current Liabilities		
Pension Payments (inc lump sums)	1,405	938
Cash Balances (owed to ESCC)	-	1,850
Professional Fees	45	62
Other Current Liabilities	35	240
Total	**1,485**	**3,090**

12. Contingent Liabilities and Assets

At 31 March 2009 the Fund has contractual commitments of £149.8 million to private equity fund managed by Adams Street and Harbourvest.

At 31 March 2009 the unfunded commitment was £62.0 million. The commitments are paid over the investment time frame of the underlying partnership. Concurrently as these partnerships mature they will also distribute capital back to investors. The Fund has received distributions not subject to recall of £20.4 million in respect of these partnerships at 31 March 2009.

The value of the funded commitment net of distributions in these funds at 31 March 2009 is included in the net asset statement.

Sussex Careers - a Community Admission Body in the Pension Fund, until recently, supplied careers advisory services on behalf of both ESCC and B&H CC. Sussex Careers has now been formally wound-up, and its remaining non-pension assets will be distributed to its creditors, including the Pension Fund.
The Fund will continue to pursue a claim for compensation and recovery of outstanding debts. While the outcome will only be decided by a decision of the Liquidators, the proportion to be paid to the Fund is yet to be determined.

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.

13. Stock Lending

As a result of concerns generated by the turmoil in world financial markets the East Sussex Fund suspended its stock lending programme run by Northern Trust, with immediate effect from 13 October 2008. All existing stock loaned out on behalf of the East Sussex Fund was recalled and the suspension is still in place. £0.161m income was generated by stock lending activities during 2008-09 for the period ended October 2008.

14. 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. The Fund Manager aggregated fees include the rebated fees in respect of the pooled funds so as to reflect the gross position in respect of investment fund manager charges.

Total expenditure on scheme and investment management expenses during the year were £5.2m broken down as follows: Professional Fees £3.8m (inc £1.0m rebated fees) and Scheme Administration £1.4m.

Investment Management expenses	**2007/08 £000**	**2008/09 £000**
Investment Management & Custody fees	4,753	3,551
Performance Measurement Services	14	13
Other Advisory Services	153	197
Total	**4,920**	**3,761**

Administrative expenses	**2007/08 £000**	**2008/09 £000**
Administration & Processing	1,074	1,168
Actuarial Fees	203	159
Audit Fee	33	68
Legal & other Professional Fees	37	5
Total	**1,347**	**1,400**

15. Related Parties

Employer pension contributions paid by East Sussex County Council in 2008/09 amounted to £37.6m (£31.7m in 2007/08). Details of transactions with East Sussex County Council can be found in note 14 to the Accounting Statements. Other than those listed above in note 14 no material transactions took place in 2008/09 with related parties. During 2008/09, the Pension Fund had an average balance of £4.62m deposited with the County Council, which paid £192,360 interest for these deposits. The County Council charged the Fund £1.4m for expenses incurred in administering the Fund. 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 11.

16. Audit Costs

The table below sets out the fees agreed with PKF for services rendered during the year, and in line with the requirement for administrating authorities to produce a pension fund annual report from 2007/08, and from 2008/09, for the pension fund audit to be separate from the audit of the County Council's accounts. The scope of the audit is determined by the Audit Commission's Code of Audit Practice ('the Code') and PKF's risk-based approach to audit planning.

	2007/08	**2008/09**
	£000	**£000**
Pension Fund Audit	17	50
Total	**17**	**50**

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).

Annual Governance Statement

The statement sets out any functions delegated to sub-committee(s) or officers, terms, structure and operation of delegation, any representation of employers including voting rights and publishes details of governance arrangements against a set of best practice principles.

Area Based Grant (ABG)

Area Based Grant is a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.

Balances

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

Best Value Accounting Code of Practice (BVACOP)

A Code of Practice to establish consistent and comparable financial reporting. The code gives a mandatory definition of total cost and the divisions of service at which total cost must be aggregated when presenting cost based information and performance indicators in a published format.

Budget

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

Building Schools for the Future (BSF)

Building Schools for the Future (BSF) is a new, strategic approach to capital investment in schools, heralding a major transformation in secondary school education nationwide.

Capital / Capital Expenditure / Capital Receipts

Capital expenditure pays for the acquisition of assets or the enhancement (rather than maintenance) of existing assets. It is financed mainly from borrowing, and charged to revenue over a number of years. 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 Adjustment Account

A reserve which is credited with amounts set aside to finance capital expenditure and absorbs the timing differences that might arise as a result of the setting aside of resources being out of line with accounting charges for depreciation and impairment losses.

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 County 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 County 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.

Debt Management Account Deposit Facility (DMADF)

The Debt Management Office provides the service as part of its cash management operations and of a wider series of measures designed to improve local and central government’s investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options.

Debtors

Amounts owed to the County 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.

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.

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.

HM Revenue & Customs (MMRC)

HMRC's purpose is to make sure that the money is available to fund the UK's public services. HM Revenue & Customs (HMRC) was formed on the 18 April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments. HMRC ensure the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid.

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.

LABGI

Local Authority Business Growth Incentives Scheme (LABGI) scheme is a financial incentive scheme to encourage economic growth by allowing local authorities to retain a share of increased Non Domestic Rate (NDR) revenue. Authorities are free to spend LABGI revenues on their own local priorities.

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 County 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.

Net Book Value (NBV)

The amount at which fixed assets are included in the Balance Sheet. The NBV is the historical cost or current value less any accumulated depreciation.

Net Worth

The total of all assets less the total of all liabilities. It helps to determine the value of an entity and is also known as Total Net Assets or Total Equity.

Non-Distributed Costs

These are costs which the County 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 County Council's financial position at the balance sheet date.

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 County Council has a close economic relationship. It includes Members and Chief Officers, Government departments that provide funding, and other bodies that 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.

Revaluation Reserve

This reserve is the net unrealised gains arising from the revaluation of fixed assets recognised in the balance sheet.

Revenue

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

Revenue Expenditure Funded from Capital Under Statute

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

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.

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 entitlement to Formula Grant.

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 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.

Statement of Movement on the General Fund Balance (SMGFB)

The Statement of Movement on the General Fund Balance provides the necessary reconciliation of the surplus or deficit on the Income and Expenditure Account to the balances held by the County Council. The Income and Expenditure account shows the County Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However the County Council is required to raise council tax on a different accounting basis. The main differences are capital investment is accounted for as it is financed, rather than when the fixed assets are consumed and retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The general fund balance compares the County Council's spending against the council tax that is raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the County Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

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.

Voluntary-aided (church) schools

The school's governing body controls the admission of pupils to a voluntary-aided school. These schools have their own admission arrangements but with the introduction of co-ordinated admissions, all applications must be made through the Council Council.

Additional Information

In addition to the Statement of Accounts, financial information can be gathered from the County 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

Further information on particular aspects of the County Council's finances or those of the South Downs Joint Committee 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 1UE.

Or by email to 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.