Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **1 September 2011**

By: **Director of Corporate Resources**

Title of report: **Review of Annual Governance Reports and Statement of Accounts for 2010-11**

Purpose of report: **For the Committee to review the Independent Auditor's (PKF) reports to those charged with governance prior to its submission to the Governance Committee on 8 September 2011.**

RECOMMENDATIONS: The Committee is asked to:

(i) note the reports and its appendices; and

(ii) identify any concerns arising from the Independent Auditor's (PKF) Report or the management response to it, that need to be brought to the attention of the Governance Committee

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1. Financial Appraisal

1.1 There are no direct financial implications arising from this report

2. Supporting Information

2.1 Under its terms of reference, it is the role of this Committee to "Review the annual statement of accounts and the external auditor's report to those charged with governance."

2.2 It is the role of the Governance Committee to approve the County Council Annual Governance Report and the Statement of Accounts, having considered whether appropriate accounting policies have been followed and any issues raised by the external auditor from the audit of the accounts.

2.3 There is a requirement for administrating authorities to produce a pension fund annual report and for the pension fund audit to be separate from the audit of the Council's accounts.

2.4 During 2010/11, the Council completed the mandatory transition of its Accounting Statements to comply with International Financial Reporting Standards (IFRS), with effect from 1 April 2010. These international standards govern the way financial transactions are brought into account and how they are reported. The transition has affected both the appearance of the Council's Accounting Statements and reported financial balances.

2.5 In complying with the transition to IFRS, the Council has had to revisit and restate the financial statements it published for 2009/10. The prior year Balance Sheet as at 31 March 2009 has also been restated. This was necessary in order to present users of the Accounting Statements with meaningful comparative information.

2.6 The Independent Auditor's (PKF) report to those charged with governance and the

Council's Statement of Accounts for 2010/11, along with the covering report under which they will be taken to Governance Committee for approval on 8 September 2011, are set out in Appendix A.

2.7 The final audit of 2010/11 Statement of Accounts by our independent auditor (PKF) has now been completed in relation to both County Council and Pension Fund. I am pleased to be able to report that the auditors will be issuing an unqualified "true and fair" audit opinion and that the audit itself has not revealed any material items that need to be reported.

2.8 Issues arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance, and the auditors did not feel it necessary to report on any particular points on value for money issues. The Auditor has made recommendations, which have been discussed and responses included in the action plan where appropriate.

2.9 The Statement of Accounts for the Council has been amended with these required changes. The main changes/adjustments relates to presentation of the financial statements in accordance with the Code, e.g.

a. Amendment of the Property, Plant, and Equipment note.
b. Additional table setting out the IFRS transition adjustments
c. Disclosures of categories of financial instruments in the financial instruments note,
d. Pension Fund Liability amendment

2.10 The overall result is especially pleasing this year given the amount of changes brought about because of the Council transition to IFRS accounting.

SEAN NOLAN
Director of Corporate Resources

Contact Officer: Ola Owolabi - Head of Corporate Finance
Tel: 01273 482017

Local Members: All

<u>Background Papers</u>
None

Report to:	**Governance Committee**
Date:	**8 September 2011**
By:	**Director of Corporate Resources**
Title of report:	**Independent Auditor's (PKF) Annual Governance Reports and Statement of Accounts 2010/11**
Purpose of report:	**To present the Annual Governance Report, and to report an expected unqualified opinion on the 2010/11 Statement of Accounts**

RECOMMENDATIONS: To

(1) Note the Independent Auditor's (PKF) Annual Governance Report on ESCC Accounts;

(2) Note the Independent Auditor's (PKF) Annual Governance Report on Pension Fund Accounts;

(3) Authorise the Director of Corporate Resources to sign the formal Letter of Representation to PKF (UK) LLP; and

(4) Approve the Statement of Accounts for publication.

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1. Financial Appraisal

1.1 There are no additional cost implications arising from this report.

2. Annual Governance Report

2.1 PKF (UK) LLP is obliged to produce an Annual Governance Report for both the East Sussex County Council (ESCC) Accounts and Pension Fund Accounts (Appendix 1 and 2), which formally reports on the outcome of the audit of the financial statements, and also upon the County Council's value for money element of Use of Resources.

2.2 The report also requires publication of more detailed points, which in the past were treated as routine technical matters between officers and the auditors. As it happens, on this occasion there are few such points, and indeed a number of such points flow from the Councils own internal audit coverage.

2.3 There is a requirement for pension fund administrating authorities to produce a pension fund annual report and for the pension fund audit to be separate from the audit of the Council's accounts.

3. Changes to ESCC Statement of Accounts

3.1 The Director of Corporate Resources on 30 June 2011 formally approved the draft Statement of Accounts, in line with the Accounts and Audit 2011 Regulations. Since then the final audit has been in progress, and now awaits the final approval of the Independent Auditor, who is expected to provide an unqualified "true and fair" audit opinion. The Regulations require me to report on changes to the accounts before they can be published.

3.2 Subject to any issues identified by the auditor between the issue of this report and the meeting, I anticipate being able to report that the auditors propose to issue an unqualified opinion and that the audit itself has not revealed any material items that need to be reported to this Committee.

3.3 During 2010/11, the Council completed the mandatory transition of its Accounting Statements to comply with International Financial Reporting Standards (IFRS), with effect from 1 April 2010. These international standards govern the way financial transactions are brought into account and how they are reported. The transition has affected both the appearance of the Council's Accounting Statements and reported balances.

3.4 In complying with the transition to IFRS, the Council has had to revisit and restate the financial statements it published for 2009/10. The Balance Sheet closing balance published as at 31 March 2009 has also been restated. This was necessary in order to present users of the Accounting Statements with meaningful comparative information.

3.5 As a result of IFRS, there are many changes to the appearance of the Accounting Statements including additional, or expanded, disclosure notes, titles and descriptive terms have also changed. As an example, Fixed Assets become Property, Plant, and Equipment. A glossary has been added at the end of the Statement of Accounts to assist readers with these changes and to explain some of the more technical terms used.

3.6 As in any year, there are some adjustments to correct non-material errors and provide additional disclosure notes, as a result of the audit work, but also changes to reflect more appropriate presentation in some cases as discussed further with the Auditor. Issues arisen from normal audit work have been noted, discussed, and resolved as stated in Para 3.66 to 3.70 of the report to those charged with governance. The Auditor has made recommendations, which have been discussed and responses included as part of the action plan where appropriate.

3.6 The revised set of accounts reflecting all adjustment described above is attached as Appendix 3.

4 Changes to Pension Fund Accounts

4.1 The Regulations require me to report on changes to the accounts before they can be published, and I am pleased to be able to report that the auditors propose to issue an unqualified "true and fair" opinion and that the audit itself has not revealed any material items that need to be reported to this committee. Issues arising from normal audit work have been noted, discussed, and resolved as stated in Para 3.28 of the report to those charged with governance.

5 Publication of Statement of Accounts

5.1 The legal deadline for publishing the 2010/11 accounts is the end of September 2011. Once the auditors have completed their work, a Letter of Representation (Appendix A of the Annual Governance Report) needs to be signed by myself prior to the auditor issuing an unqualified opinion. This will enable me to place the Statement of Accounts on the Council's website, which fulfils the legal requirement, and to publish the printed document as soon as possible afterwards.

SEAN NOLAN
Director of Corporate Resources

Contact Officer: Ola Owolabi – Head of Corporate Finance,
Tel: 01273 482017

Local Members: All

<u>Background Documents</u>

None

Accountants & business advisers

East Sussex County Council

Annual Governance Report 2010/11

August 2011

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Appendices

1 Executive summary

1.1 This report sets out our findings from the audit of the East Sussex County Council ('the Council'). Auditing standards and the *Code of Audit Practice* require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit of the accounts and use of resources prior to issuing our opinion on the financial statements and value for money conclusion.

1.2 A separate report has been issued in respect of the audit of the pension fund financial statements contained within the Council's financial statements.

1.3 A summary of our findings and conclusions is included below:

Area of audit	Findings and Conclusion
Financial statements	
Financial statements	The Council has effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS) and correctly restated comparative figures in the financial statements. Management has made a number of judgements in considering the existence of grant conditions, or reasonable assurance that grant conditions will be met, in accounting for grants and contributions receipts in advance under IFRS. We are satisfied that these judgements are not unreasonable, although we have sought management representation in some areas. No material errors were identified as a result of audit work. However, the following amendments have been made to the draft financial statements presented for audit, including: • adjustment of the pensions liability following receipt of a revised report from the actuary • reclassification of the accumulated absences accrual from provisions to creditors. We have also suggested a number of amendments to disclosures in the accounts and to aspects of the presentation of the overall Statement of Accounts that we are discussing with management. Some areas of work remain outstanding at the time of drafting this report where we are awaiting responses from others and these are detailed in the report. Should these result in any significant issues, we will provide a verbal update to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee at their meetings on 1 September and 8 September respectively. We are satisfied that the Statement of Accounts is not inconsistent with the financial statements that we have audited. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified "true and fair" opinion.

Area of audit	Findings and Conclusion
Internal controls	We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, for example: • independent authorisation of journals is required where the total value of the amount to be posted exceeds £1 million whereas good practice would require independent authorisation of all manual journals created and posted to the SAP nominal ledger.
Annual Governance Statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.
Use of resources	
Value For Money conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. This is based upon the following two Audit Commission criteria: • the organisation has proper arrangements in place for securing financial resilience • the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. We anticipate issuing an unqualified value for money conclusion.

2 Introduction

2.1 This report sets out our findings from the audit of the East Sussex County Council ('the Council') for the year ending 31 March 2011. Our report is presented to the Council in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, which requires us to report key findings from the audit to those charged with governance, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, and the Audit Commission's *Code of Audit Practice*. A separate report has been issued in respect of the audit of the pension fund financial statements contained within the Council's financial statements.

2.2 These require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit of the financial statements (the Council's accounting statements) and use of resources prior to issuing our opinion on the financial statements and value for money conclusion.

2.3 The contents of this report have been discussed and agreed with the Deputy Director of Finance and we have reported orally to management other non-significant findings from our audit. Recommendations in response to the key findings identified by our audit are provided in the action plan at appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.

2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant.

Fee outturn

2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan. We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee of £206,350 with management, before we report the final fee outturn.

Independence

2.6 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in our Audit Plan for 2010/11, has remained valid throughout the period of the audit

2.7 We would like to thank staff for their co-operation and assistance provided throughout the audit.

3 Financial statements

Requirements

3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure, and have been properly prepared in accordance with the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom.

3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.

3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.

3.4 In carrying out our work we determine and apply a level of materiality. The audit cannot be relied upon to identify *all* risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements, such as the senior officer remuneration report.

3.5 We are also required to set a second level of materiality (known as "performance materiality") which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £250,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud.

3.7 We will identify material corrected misstatements individually. We will request that any non-trivial uncorrected misstatements be corrected.

Reporting to those charged with governance

3.8 We report to you:

- our assessment of and response to **significant risks** in the financial statements
- significant qualitative aspects of **accounting practices** including the application of the applicable **financial reporting framework**
- significant difficulties that we have encountered during the course of the audit
- significant matters discussed, or subject to correspondence with management or other employees
- material **misstatements** that have been **corrected by management**
- **uncorrected misstatements**
- **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance
- significant deficiencies in **accounting and internal control systems** identified during our work
- matters required to be reported by **other auditing standards**
- any **other audit matters of governance interest** relevant to the financial reporting process
- expected modifications to the **audit report**.

3.9 We have highlighted in the items above those areas where we have communicated issues from our audit. Our comments in these areas are set out in order below.

Significant risks of material misstatement

3.10 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.

3.11 We reported to you our risk assessment in the 2010/11 Audit Plan issued in December 2010.

3.12 The significant audit risks identified during our risk assessment and communicated to you, along with our audit response to those risks, are set out below:

Management override

3.13 Management override refers to the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding what might appear to be effective internal controls. Management is in a unique position to perpetrate or conceal the effects of fraud through recording fictitious journal entries, inappropriately adjusting assumptions and changing judgments used to estimate account balances, engaging in complex transactions that are structured to misrepresent the financial position, and altering records and terms related to significant and unusual transactions. Therefore, we are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our Audit Plan.

3.14 Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

3.15 We have reviewed material accounting estimates identified as having high estimation uncertainty or subject to a significant degree of judgement and further detail is provided in the section on Appropriateness of management estimates below.

Implementation of International Financial Reporting Standards (IFRS)

3.16 The introduction of IFRS as the financial reporting framework for local authorities requires a review of material classes of transactions, balances and disclosures where the accounting treatment differs from that previously recognised under the UK GAAP based SORP. This requires restatement of the opening balances at 1 April 2009, restatement of the 2009/10 accounts and review of the correct accounting treatment of transactions in 2010/11.

3.17 The Council has put in appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts. Our review confirmed that it has appropriately applied IFRSs in the production of its financial statements, including changes in accounting standards, new format of the financial statements, additional disclosure requirements and restated comparative information.

3.18 The key changes introduced by IFRS that are applicable to the Council are set out below, including the Council's response to the changes.

Leases under IFRIC 4 (lease type arrangements) and IAS 17 (leases)

3.19 IAS 17 increases the qualitative criteria to be applied in assessing whether a lease is a finance lease or an operating lease and requires that land and buildings are considered separately for the purposes of the lease calculations. IFRIC 4 requires arrangements or a series of transactions that convey the right to use an asset to be reviewed to assess whether they meet the definition of a lease in IAS 17 (and subsequent inclusion as a finance lease or operating lease).

3.20 The Council has reviewed its leases and other contractual arrangements and recognised additional finance lease liabilities of £614,000 and corresponding property, plant and equipment with a carrying value of £906,000 at 31 March 2011. Comparatives have been restated accordingly. These include car park meters for on-street parking contracts with NCP in Lewes and Eastbourne. A number of additional operating leases have also been identified which have been disclosed in the financial statements.

3.21 Based on our work completed to date, we are satisfied that the Council has appropriately assessed whether its arrangements contain the substance of a lease and property leases have been reviewed for separate leases of land and buildings.

Investment properties under IAS 40

3.22 IAS 40 requires that investment properties are now separately disclosed, measured at fair value and with valuation gains or losses taken through the Comprehensive Income and Expenditure Statement.

3.23 The Council has identified its investment properties and obtained appropriate valuations for inclusion in the financial statements. A valuation gain of £125,000 in the current year has been recognised in the Comprehensive Income and Expenditure Statement (and reversed out of the General Fund to the Capital Adjustment Account through the Movement in Reserves Statement as required under the Code).

3.24 We are satisfied that the Council has appropriately classified and valued its investment properties at fair value.

Component accounting for assets under IAS 16 (Property, plant and equipment)

3.25 IAS 16 requires that depreciation is calculated based on significant components of property, plant and equipment, and that an estimate of the carrying value of the replaced components should de-recognised in the accounts. The Council is required to apply this change prospectively from 1 April 2010.

3.26 The revaluations of the Council's land and buildings carried out at 1 April 2010, as part of the rolling programme of valuations, has been prepared on an appropriate component basis. The Council initially obtained a beacon analysis for land and buildings from its valuer that identified typical significant components, percentage value and average lifespan of the components for each asset group. Where the assets revalued in the year did not conform in significant respects to the beacon analysis, the valuer provided condition reports to support the components identified and the Council has used these in its depreciation calculations.

3.27 We are satisfied that the Council has appropriately componentised its assets that have been revalued during the year and applied depreciation on an appropriate basis for significant components. Appropriate adjustments have been made to de-recognise components where these have been replaced.

Impairments resulting from a clear consumption of economic benefits under IAS 36

3.28 IAS 36 requires that all impairment losses, arising from both general price falls and economic consumptions of assets, are taken initially to the revaluation reserve to the extent that any balance is available. Previously, the SORP required economic consumption impairment losses to be charged to expenditure even if there was a revaluation reserve balance available for that asset from previous revaluation gains.

3.29 The Council did not have any economic consumption impairments losses since formation of the revaluation reserve therefore no IFRS adjustment was required in this regard. Our work in reviewing the treatment of impairment losses in the current year is in progress at the time of drafting this report.

Employee benefits under IAS 19

3.30 IAS 19 requires that all employee benefits are accounted for as they are earned by the employee, which will result in the recognition of employee accumulating compensated absences, such as untaken holiday pay, as an accrual in the financial statements.

3.31 The Council has accrued for short term accumulating compensated absences of £8.6 million at 31 March 2011 and comparatives have also been restated to include estimated accruals.

3.32 We are satisfied that the Council has applied a reasonable approach for determining the value of untaken holiday pay and that the calculations and assumptions applied follow guidance issued by CIPFA.

3.33 However, the draft financial statements had included this amount in provisions and it is now correctly included in creditors.

Government grants and other contributions under IPSAS 23

3.34 Grants and contributions for revenue and capital purposes are now required to be recognised as income immediately rather than being deferred and released to revenue to match expenditure or depreciation, where grant conditions have been met or there is a reasonable assurance that grant conditions will be met.

3.35 The Council has reviewed its grants income and balances previously held in a 'Government grants deferred account' and an 'Unapplied grants and contributions' balance under UK GAAP and has reversed amounts that do not qualify for recognition as receipts in advance to the Capital Adjustment Account. The Council has now recognised all grants received in the Comprehensive Income and Expenditure Statement, with the exception of £7.1 million of revenue grants receipts in advance and £32.1 million of capital receipts in advance, which are held in liabilities where the grant conditions have not yet been met and there is no reasonable assurance that they will be met

3.36 Further information on management's judgements in respect of these balances is provided in the Appropriateness of management accounting estimates section below.

3.37 The Council has reversed capital grants recognised in the Comprehensive Income and Expenditure Statement out of the General Fund to the Capital Adjustment Account where the grant has been spent, and to a capital grant unapplied reserve where the expenditure has not yet been incurred.

3.38 We are satisfied that management's judgements in respect of the recognition or deferral of grant receipts are not unreasonable and that the Council has correctly accounted for grant receipts.

Group accounting requirements

3.39 IFRS places greater emphasis on the ability to control rather than actual control in deciding whether entities should be included in group accounts of a parent entity.

3.40 The Council has reviewed its interests in other entities and concluded that it does not have significant influence over any other organisation by way of power to participate in their financial and operating policies that would have a material impact on its financial statements.

3.41 We are therefore satisfied that there is no requirement for group financial statements to be prepared.

Operating segment disclosures under IFRS 8

3.42 IFRS 8 introduces a requirement for inclusion of segmental reporting disclosures in the financial statements based on internal financial management budgets and removal of certain Code adjustments, such as capital charges, based on subjective analysis.

3.43 The Council has disclosed operating segmental information in the form of principal departments as this budget monitoring information is regularly reported to Council, Cabinet and the Chief Officers Management Team, who are the Council's chief operating decision makers. Departmental income and expenditure has been reconciled to the total cost of services and to a subjective analysis of the surplus on provision of services in the Comprehensive Income and Expenditure Statement.

3.44 We are satisfied that the Council has appropriately disclosed its operating segments.

Accounting practices and financial reporting framework

3.45 The financial statements have been prepared in accordance with the Code of Practice and have, in all material respects, correctly applied the relevant accounting policies.

3.46 The key change introduced by the 2010 Code of Practice on Local Authority Accounting in the United Kingdom was the introduction of an IFRS based set of financial statements, resulting in a number of significant changes in accounting practice. The impact of IFRS is commented on in detail above.

3.47 The financial statements closely follow the template local authority financial statements prepared by CIPFA. However, we have noted a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code and these are reported in the Misstatements corrected by management section below.

Accounts preparation process

3.48 The requirement for Members to approve the draft Statement of Accounts by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations did introduce the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June 2011. The financial statements were signed and presented for audit on 30 June 2011.

3.49 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of working papers on 4 July, in line with the agreed timetable. Additional working papers were provided throughout the audit process.

Appropriateness of management accounting estimates

3.50 We review material accounting estimates identified as having high estimation uncertainty or are subject to a significant degree of judgement by management, and to assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value that these are recognised at.

Valuation of property, plant and equipment

3.51 Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalue land and buildings over a five year rolling programme. There are no valuation adjustments made to land and buildings that have not been revalued in that year, regardless of any changes in price indices, which is accepted practice in the Code.

3.52 Since 1 April 2010, the valuations have also separately identified significant components and plant by value and allocated separate useful economic lives to each component.

3.53 Valuation reports on land and buildings and useful economic lives are provided by an independent firm of valuers with specialist knowledge and experience valuing of local authority estates, having regard to local prices and building tender indices in the public sector. Management accept the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.

3.54 We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components are not unreasonable.

3.55 Equipment assets, such as vehicles and information technology, are reasonably short-life assets and the depreciated carrying value is assumed to be a reasonable proxy for their fair value, without requiring any regular market valuation adjustments. We have reviewed the useful economic lives allocated to classes of equipment assets and are satisfied that they are not unreasonable.

Estimated pension liability

3.56 The net pension liability of the Council comprises its share of the market value of assets held in the Essex Sussex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.

3.57 An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. We are aware that a revised estimate was provided to the Council by the actuary in June 2011, following a query from Brighton and Hove City Council over the allocation of pension contributions, and that management has since corrected the financial statements for the revised valuation.

3.58 Management has agreed the assumptions made by the actuary and these are included in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.

3.59 We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Recoverability of debtor balances

3.60 The Council makes allowance for impairment of debtors based on an assessment of the recoverability of debtors. Management reviews all debts, and specific amounts that are considered to be unlikely to be recovered are included in the allowance for doubtful debts. Most categories of the Council's debtors are not subject to substantial fluctuation and management applies percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the allowance for doubtful debts.

3.61 We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts and we are satisfied that it is not unreasonable.

Recognition of grant income and receipts in advance

3.62 The recognition of grant receipts in advance under the IFRS Code is based on whether there are conditions attached to the grant and whether there is reasonable assurance that any grant conditions will be met. The existence of grant conditions may be specified in grants agreements, although where conditions are not explicitly stated, management has in some instances judged that there are implicit grant conditions. This is the case where there is an expectation that monies will need to be repaid if not spent in accordance with grant restrictions. Management has also made judgements in assessing whether or not there is reasonable assurance that grant conditions will be met.

3.63 For transparency we have highlighted the following examples of unspent grants that have been transferred to receipts in advance on the basis that management considers that there are grant conditions and that there is no reasonable assurance that grant conditions will be met:

- specific grant allocations from the Schools Standards Fund
- a number of Partnership for Schools capital grants from the Department for Education, including £5.3 million SEN strategy grant and £3.5 million academies grant
- various Section 106 agreements.

3.64 Management has made oral representations to auditors regarding its judgements in respect of grant income recognition and we are satisfied that the assumptions made by management are not unreasonable.

3.65 We have also requested written representations from the Council to confirm that the judgements made by management in recognising grant income or deferring recognition to a later period are reasonable and appropriate.

Misstatements corrected by management

3.66 Our audit has not identified any material misstatements. Management has made a number of corrections to the draft financial statements including disclosures and presentation as noted below:

Pension fund liability

3.67 Following a query received from Brighton and Hove City Council regarding the allocation of historical unfunded pension contributions between the two Councils, a revised IAS 19 report was received from the Council's actuary in June 2011. The Council has amended its draft financial statements presented for audit to take account of the revised report, with the result that the pension liability has reduced by £6.5 million at 31 March 2011, actuarial gains in the year have increased by £6.8 million and the charge to the surplus on provision of services has decreased by £300,000.

3.68 As the impact of the changes is not material to the overall financial statements, we are satisfied that no prior period adjustment is required.

Employee benefits

3.69 As noted earlier, the draft financial statements had included an amount of £8.6 million in current provisions and this has now been correctly included in creditors.

Other disclosures

3.70 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code.

- inclusion of a table setting out the IFRS transition adjustments to the Balance Sheet at 1 April 2010 in 'The impact of the adoption of IFRS' note to the financial statements
- amendments to a number of disclosures in the Property, Plant and Equipment note, including restated comparatives, so as to more clearly show movements in the balance and to reduce opening gross cost and accumulated depreciation by £32.5 million, by way of a prior period adjustment, for fully depreciated assets that were no longer in use in the prior year (these were disclosed as in-year movements in the Property, Plant and Equipment note in the draft financial statements)
- inclusion of narrative in the 'Critical judgements in applying accounting policies' note for judgements made in respect of management's views on grant conditions for the purposes of recognising grant receipts in advance
- restatement of the capital commitments note so as to disclose only those amounts to which the Council is contractually committed rather than its full capital programme over the next four years

- correction to disclosures of categories of financial instruments and associated carrying values and fair values in the financial instruments note, to exclude balances that do not meet the definition of financial instruments, such as PFI prepayments, other prepayments and income in advance
- re-analysis of the debtors and creditors notes to comply with the required analysis per the Code
- reclassification of provisions expected to be settled in the normal operating cycle from long term provisions to current provisions
- reallocation of court costs to 'Central services to the public' in the Comprehensive Income and Expenditure Statement so as to comply with the Best Value Accounting Code of Practice 2010/11
- inclusion of non-adjusting Post Balance Sheet Event disclosures relating to the transfer of responsibilities for concessionary bus travel to the Council from 1 April 2011, the transfer of two schools to academy status in September 2011, and the opening of the waste recycling site
- correction of depreciation charge and other service expenditure in the reconciliation of the departmental expenditure to subjective analysis in the 'Amounts reported for resource allocation decisions'.

Uncorrected misstatements

3.71 Our audit has not identified any material or non-trivial misstatements which management has not adjusted. We will provide an update at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting should we identify any items during the final clearance of outstanding issues.

Written representations

3.72 We are required by auditing standards to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as appendix B.

3.73 We do not anticipate any changes being required before providing our opinion on the financial statements.

Accounting and internal control systems

3.74 We have reviewed the key financial and operational systems which contribute to the preparation of materially accurate financial statements. The purpose of the audit is for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control or to identify all improvements which might be necessary to address the deficiencies identified.

3.75 The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention.

3.76 Your key financial systems are:

- Main accounting system
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Investments and investment income
- Property, plant and equipment
- Carepay (Children's services)
- SPOCC (Supporting people)
- Trapeze (passenger transport)
- Abacus income (adult social care)
- Abacus / Controcc payments (adult social care)
- Information technology

3.77 Where possible, we sought to use the work of Internal Audit and thereby avoided unnecessary duplication of audit effort. Internal Audit has satisfactorily carried out a comprehensive programme of work and we were able to place reliance on their work for the testing of the effectiveness of specific controls, with the result that we were able to able to maintain the audit fee below the Audit Commission's scale fee level.

3.78 We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant.

Journal authorisation

3.79 The Council's financial procedures require that all journals over £1 million are signed by a suitably authorised person although not all require independent authorisation. Our review of a sample of journals found that large journals in respect of treasury management, capital finance and pension fund entries are generally not independently reviewed.

3.80 We believe that the absence of suitable independent checks on all large journals poses a risk of undetected errors and we have raised a recommendation for the Council to review its policy in this area. We have also recommended that those charged with governance consider the appropriateness of the £1 million threshold as good practice would require independent authorisation of all manual journals created and posted to the SAP nominal ledger.

3.81 It should be noted that despite there being scope for improvement in the control environment in this area, our further substantive testing of a sample of journals in the final accounts audit did not identify any issues which would bring the validity and appropriateness of journal entries into doubt.

Journals narrative

3.82 Internal Audit tested a sample of journals to assess the quality of journal narrative and to ensure that there was adequate supporting evidence for the value of the journal. It was found that generally the journal narrative had improved from that in prior years although four journals in the sample tested did not contain adequate narrative. Two of these journals did not explain that they were entered to correct previous mis-postings and there were also errors in these correction journals.

3.83 Internal Audit has previously reported the issue to officers, including a recommendation for improvement, in its report on the General Ledger system during 2010/11.

Bank reconciliations

3.84 The Council has adequate bank reconciliation procedures in place as reconciliations of online bank statements to general ledger balances are carried out on a daily basis. Following our prior year recommendation, we are informed that these bank reconciliations are reviewed electronically by the Head of Corporate Finance, although we recommend further that evidence of these checks is retained, including review of outstanding receipts and payments and other reconciling audit trails.

Control account reconciliations

3.85 The Council does not routinely carry out control account reconciliations between the accounts receivable and accounts payable subsidiary ledgers and the relevant general ledger control accounts as reliance is placed on automatic interfaces within SAP.

3.86 Our comparison of the balance on the accounts receivable control account to the underlying subsidiary ledger at year end identified a difference of £5,495. Whilst this difference is clearly trivial, it is not obvious as to how a difference could have arisen from the automatic interface and whether the difference may be net of larger debit and credit differences.

3.87 We also identified an imbalance of £1,334 in the prior year, which the Council investigated and resolved with Serco during the current year.

Invoice requests for income

3.88 The Council's financial procedures require that invoices request forms are completed for all invoices raised to support proof of debt. Internal Audit's testing of a sample of income transactions found that for 17 out of 24 transactions there was no invoice request form, although on further investigation Internal Audit was able to establish the accuracy and validity of the sampled income by reference to other supporting documentation provided by the departments.

3.89 Internal Audit reported the issue in its report on the Accounts Receivable system during 2010/11, including a recommendation that the Council's Income Policy be revised to ensure that there is clarity on whether invoice request forms are required to support all debts.

3.90 We accept that invoice request forms may not always be practical. However, we believe that the use of appropriate documentation, either in the form of invoice request forms or other documentation to support invoice requests, is a key control for ensuring that income is accurately and completely billed.

3.91 We reported this issue in the prior year and recommend that in the absence of formal invoice request forms, there is appropriately authorised primary documentation to support all invoices raised

Debt recovery processes

3.92 Internal Audit's testing found a number of instances where reminder letters were not generated at stated overdue dates, particularly in Adult Social Care, and the Council's Income Policy with respect to debt recovery processes is not always being applied for large customers.

3.93 Internal Audit reported the issue in its report on the Accounts Receivable system during 2010/11, including a recommendation that the Council's debt recovery processes should be followed for all customers, irrespective of size or status.

Authorisation of staff overtime and expense claims

3.94 Internal Audit found that although records are maintained to show who is holding each of the authorisation stamps in circulation, these records are not always up to date and there is a risk of stamp misuse that could result in financial loss.

3.95 Internal Audit reported the issue to officers in its report on the HR / Payroll system during 2010/11, including a recommendation for consideration to be given to replacing the approval stamp process with a more detailed monthly check on a sample of claims. We are informed that with effect from 1 August 2011, the Council has introduced additional validation checks during the processing stage and the authorisation stamps are no longer in use.

Other auditing standards

Risks of material misstatement due to fraud (ISA 240)

3.96 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.97 We have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. In order to identify risks of material misstatement due to fraud, and the controls you have put in place to mitigate those risks, we have:

- discussed your anti fraud and corruption arrangements with officers and those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
- made enquiries regarding instances of actual fraud you have brought to our attention.

3.98 We have been informed that there is no known or reported material fraud or corruption suffered by the Council and we did not identify any significant fraud risks that affected our audit programme.

3.99 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual governance statement

3.100 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2010/11 financial statements.

3.101 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

3.102 We are aware that the Council is currently reviewing its Annual Governance Statement following a recent Care Quality Commission inspection of the Mount Denys Care Home and actions to improve standards.

Insurance fund reserve

3.103 The Council's insurance fund reserve, held within earmarked reserves, is a discretionary balance based on the Council's estimates of the reserve required for self-assurance of future likely claims. As part of the estimation process, the Council has obtained an actuary's valuation of potential future uninsured losses, which has indicated that there may be opportunities to reduce the amount set aside.

3.104 We have been informed that management is currently reviewing the levels of earmarked reserves as part of the 2012/13 budget planning cycle.

Audit report

3.105 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:

- review of revised Statement of Accounts (received 19 August 2011)
- testing of revaluation movements for property, plant and equipment
- confirmation of valuation dates from valuer
- Fire Authority bank confirmation, as a reconciling item within the Council's bank reconciliation
- audit of staff redundancies
- audit of Learning Management System (LMS) schools balances
- audit of Cash Flow Statement
- audit of opening trial balance
- completion of IFRS restatement audit, particularly in respect of grants and leases
- clearance of review queries.

3.106 We will provide an oral update on these outstanding issues at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting on 1 September and 8 September respectively.

4 Use of resources

4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money, or “VFM”).

4.2 Our Audit Plan highlighted that there are significant financial pressures as a result of the recession and service cost pressures, including the introduction of free personal care for older people and adults receiving community services. The Council was required to achieve savings of £11.5 million in 2010/11, in order to deliver a balanced budget, and our risk assessment noted that there were risks that the Council would not be able to achieve the required savings and efficiency improvements, which could impact on service delivery.

4.3 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council’s performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2010/11 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

4.4 Our financial resilience work considered the Council’s arrangements for financial governance, financial planning and financial control. Our review of economy, efficiency and effectiveness considered the Council’s arrangements for prioritising resources and improving efficiency and productivity.

4.5 The key issues arising from our work are summarised below.

Financial resilience

4.6 Our 2009/10 assessment highlighted that the Council had made improvements in its ‘Reconciling Policy and Resources’ (RP&R) process to specifically build on the outcomes of equalities impact assessments. New guidelines on consultation were introduced and these require feedback of the results of consultation to the public and those consulted. Our work also found that financial planning had taken into account the impact of the recession and likely reduced levels of future central government funding, with the Council modelling 20 per cent real term reductions in formula funding, low council tax increases and higher bad debt charges.

4.7 In 2010/11 the Council has maintained its good track record of member and officer involvement in reviewing financial matters and consulting on expenditure priorities. Clear leadership is shown from the top of the organisation, to ensure that the Council’s overall financial position is understood within the organisation and among partners.

4.8 2010/11 was the last year of the Government's 2007 Comprehensive Spending Review and previously there was a degree of certainty as to the availability of Government funding. In setting the budget for 2010/11 the Council faced cost pressures of £21.4 million, and after allowing for an increase in general revenue grants of 3.6 per cent and an increase in council tax of 2.7 per cent, and the budget strategy presented to Council in February 2010 included a savings requirement of £11.5 million to balance the budget.

4.9 Savings schemes included reduced administration, more cost effective procurement, careful use of grant funding to target priority areas, increases in interest receivable and decreases in the cost of borrowing.

4.10 Budget monitoring reports to Cabinet in the year highlighted a number of departmental underspends, which increased throughout the year. By the end of the year, the Council achieved an underspend of £10.9 million against its net budget requirement, which has resulted in a higher contribution to overall reserves than originally planned. The majority of the underspend related to additional cost savings in directorates and schools, which has been carried forward in earmarked reserves for use in 2011/12.

4.11 The Council's 2011/12 revenue budget requires savings of £37 million due to reductions in formula grant and specific grants and spending pressures. In addition, the Council is expecting to have to make savings of £63 million over the three years from 2012/13 to 2014/15. Whilst the RP&R process for 2010/11 has worked well, management has reported to Cabinet that there are changes that need to be made to cope with the scale of challenge over the next three years.

Challenging economy, efficiency and effectiveness

4.12 Our 2009/10 use of resources work highlighted that the Council had commenced a programme of value for money service reviews, and that the programme would comprehensively review cost and performance of all elements of services over the period 2009-2012.

4.13 In 2010/11 the programme of service reviews continued with greater emphasis on benchmarking, demonstrating how costs in areas of above average spend and support service costs can be reduced and how the effects of reductions in specific grants in the services can be absorbed over the next three years.

4.14 The Council has also continued its involvement in the South East Seven (SE7) partnership. The SE7 councils are working together in a number of key areas to explore collaborative opportunities to improve the quality of services and to achieve efficiency savings. Cabinet members and chief officers represent the Council at SE7 meetings. As the current Lead Authority, the Council is taking a more directive role in the partnership and planning of the workstreams.

4.15 The Council is also leading on the SE7 workstream to reform the Special Education Needs (SEN) system and proposals have been submitted to the Secretary of State for Education for a radical redrawing of the SEN system to support young people with SEN and their families, to improve the system and to drive out inefficiencies.

4.16 The Council improved its procedures for developing policy steers and setting key priorities in the 2010/11 RP&R process. In response to the challenging financial outlook, and the increased freedom and accountability introduced bv the Government in the removal of national performance targets, the Council renewed its Promise to residents and its Policy Steers during 2010/11. RP&R guidance on developing performance measures and setting targets was strengthened to support this change.

4.17 Further changes have been made to the RP&R process for 2011/12 to respond to the financial challenges facing the Council over the next three years and beyond. The key changes, as reported to Cabinet, are:

- The RP&R process has become the Reconciling Policy, *Performance* and Resources (RPP&R) process. This makes it explicit that the Council needs to balance three elements where choices can be made – Policy (what to do), Performance (how well to do it) and Resources (at what cost). The intention is not to focus on identifying cuts but, more positively, to decide how to spend well the budget that is available and challenge departments across the three elements of RPP&R to deliver the best possible value for money

- Having a three year budget.

- Linking policy, performance and resources to an overall commissioning approach for each set of services (a fourth choice – how to do it). This will be supported by using 11 smaller ‘service areas’ in each portfolio as the basis for integrating financial and performance information and so allow for finer choices to be made about how resources are allocated. The essential elements of the commissioning approach are to (a) set the direction for services in Policy Steers (based on an analysis of local needs); (b) design appropriate services and rigorously assess the best means of delivery; (c) procure and deliver the services; and then (d) monitor and evaluate how successful the Council has been in achieving value for money for local people.

4.18 The process of carrying out service reviews has been revised to support the commissioning approach going forward and the service review programme has been updated to reprioritise some reviews, add new areas and include high level monitoring information. In support of the programme, service review guidance has also been updated, strengthening the links to commissioning, including needs analysis and evidence gathering. The guidance also includes practical tools to support officers undertaking the reviews.

4.19 The Council is also currently working on a number of organisation-wide reviews to further improve value for money going forward, including an income generation project to ensure that all non-grant sources of additional income are maximised, and an 'Accommodation 20 per cent challenge' for achieving revenue savings in the use of the Council's properties.

4.20 Review of 2011/12 budget monitoring reports to Cabinet indicates that the Council is forecasting a net overspend of £451,000 as at May 2011.

Audit report (value for money conclusion)

4.21 Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

4.22 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. We propose issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial systems					
Journals authorisation The Council's financial procedures require that all journals over £1 million are signed by a suitably authorised person, however they do not require independent authorisation of all journals in excess of £1 million. Our review of a sample of journals has found that high value journals in respect of treasury management, capital finance and pension fund entries are generally not independently reviewed. We believe that the absence of suitable independent checks on all large journals poses a risk of undetected errors.	The Council should review its financial procedures on journal authorisation processes and: • consider including a requirement for all large journals to be independently authorised, irrespective of the seniority of the person who raised the journal • re-consider the appropriateness of the £1 million threshold level.	High	Management will review the appropriateness of the Council's Accounting Guidance, section 3.3.2.5, that all journals with total debits of more than £1m, should be authorised by a senior Finance Officer. There has been significant improvement in this area as a result of monthly journal monitoring report to relevant officers. While the number of journal correction ratio is very low, Finance Officers Group will be reminded of the need to continue to review/monitor the situation through adherence to basic accounting principle.	Ola Owolabi - Head of Corporate Finance	On-going

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Journals narrative Internal Audit's testing of a sample of journals found a few instances where there was insufficient narrative to explain the purpose of the journal, particularly in respect of journal corrections. They also found errors in two correction journals. Internal Audit reported the issue to officers, including a recommendation for improvement, in its report on the General Ledger system during 2010/11. The absence of sufficient narrative on all journals increases the risks of errors not being detected in journals authorisation processes.	The Council should ensure that Internal Audit's recommendation regarding correction journals is implemented by the agreed dates.	Medium	CRD-Corporate Finance team currently produces regular analysis of the journal posting that highlight volumes of journal, bad narratives, errors, items that require immediate correction, etc. Plan is being made to improve this monitoring report by adding additional information detailing those departments (including names) that are not complying with journal narrative postings rules. The list will be reviewed at both FOG and FRG meeting for action.	Ola Owolabi - Head of Corporate Finance	On-going
Authorisation of bank reconciliations There is no documented evidence of independent approval of bank reconciliations, including review of outstanding receipts and payments and other reconciling audit trails. We believe that this increases the risks of undetected errors in bank reconciliations.	A procedure should be implemented whereby formal independent approval of bank reconciliations, including review of outstanding receipts and payments and other reconciling audit trails, is retained.	Medium	Due diligence and necessary procedure/control has been put in place to ensure balances on the General Ledger and NatWest bank accounts are regularly reviewed on a daily and monthly basis with relevant comments to support any changes. These reports for both Council and Fire Authority are independently signed off on monthly basis. Discrepancies continue to be investigated and resolved in accordance with CRD/Serco procedures.	Ola Owolabi - Head of Corporate Finance	On-going

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Control account reconciliations The Council does not routinely carry out control account reconciliations between the accounts receivable and accounts payable subsidiary ledgers and the relevant general ledger control accounts as reliance is placed on automatic interfaces within SAP. However, our comparison of the balance on the accounts receivable control account to the underlying subsidiary ledger at 31 March 2011 identified a difference of £5,495. Whilst this difference is clearly trivial, it does raise concerns as to how a difference could have arisen from the automatic interface and whether the difference may be net of larger debit and credit differences.	Reconciliations between accounts receivable and accounts payable control accounts and the subsidiary ledgers should be carried out on at least a quarterly basis, and evidence of these reconciliations should be retained.	Medium	Accepted. As at 31/07/2011 the difference has reduced to five entries amounting to £116.09. Work is ongoing to resolve the remaining items. There appears to be a system recording problem in the previous year, which Serco investigated and resolved. In view of this imbalance, a process has been put in place to complete a quarterly reconciliation of accounts receivable and accounts payable subsidiary ledgers and the relevant general ledger control accounts.	Janyce Danielczyk, Accounts Compliance Manager,	On-going

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Invoice requests for income Internal Audit's testing of a sample of income transactions found that there was no invoice request form for 17 out of 24 items tested. We accept that invoice request forms may not always be practical, however we believe that the use of appropriately documentation, either in the form of invoice request forms or other documentation to support invoice requests, is a key control for ensuring that income is accurately and completely billed.	(a) The Council should ensure that Internal Audit's recommendation regarding review of the Income Policy is implemented. (b) The Council should also ensure that in the absence of formal invoice request forms, there is appropriately authorised primary documentation to support all invoices raised.	Medium	This was a minor recommendation by the internal audit within their 2010/11 audit. Upon investigation they found that where there was no invoice request form either a system report or excel spreadsheet existed providing the same information. The Income Policy will be updated to include a statement that system reports and spreadsheets are acceptable as long as the same information is supplied and it represents best use of resources.	Janyce Danielczyk, Accounts Compliance Manager,	On-going
Debt recovery processes Internal Audit's testing found a number of instances where reminder letters were not generated at stated overdue dates, particularly in Adult Social Care, and the Council's Income Policy with respect to debt recovery processes is not always being applied for large customers. There is a risk of financial loss if debt recovery procedures are not as robust as required by the Council's Income Policy.	The Council should ensure that Internal Audit's recommendation regarding debt recovery processes is implemented.	Medium	This was a minor recommendation by the internal audit within their 2010/11 audit. Reminders for ASC and all other debts are despatched on time and in accordance with existing reminder intervals. This was wrongly reported by internal audit, they misunderstood the reminder intervals when undertaking their spot checks. There was an incident with one customer having a longer time period to pay which is being resolved. Internal Audit accepted this as a minor incident.	Janyce Danielczyk, Accounts Compliance Manager,	On-going

Appendix B: Draft letter of representation

The following draft letter of representation covers the Council's Statement of Accounts which includes the pension fund financial statements. Representations for the preparation of the Statement of Accounts will be sought from the Director of Corporate Resources (as the Chief Finance Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

8 September 2011

Dear Sirs

Financial statements of East Sussex County Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of East Sussex County Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Director of Corporate Resources and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically:

IAS 19 pension liabilities assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business of the Council. These assumptions include:

• Rate of inflation	2.8%
• Rate of increase in salaries	5.1%
• Rate of increase in pensions	2.8%
• Rate for discounting scheme liabilities	5.5%

- Expected return on assets 6.9%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Grant receipts in advance

I confirm that the judgements in assessing whether or not to defer recognition of unspent grants are reasonable and in accordance with the Code and CIPFA's guidance. In particular, the Council has deferred recognition of revenue receipts in advance of £7.144 million and capital grants and contributions receipts in advance of £32.085 million on the grounds that there are conditions attached to these amounts and that there is no reasonable assurance at the date of approving the Statement of Accounts that these conditions will be met.

Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation.

Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

Plans or intentions

The Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you the following actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

- a number of legal cases against Adult Social Care
- insurance claims
- employment tribunal for a member of staff
- outstanding cases where the Council charged clients for the provision of services under the Mental Health Act 1993
- four equal pay claims and a collective grievance which have been lodged against the Council
- a challenge by a landowner concerning the Council's decision to approve an application to register land known as West Beach as a town or village green.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Uncorrected misstatements

You have not brought to my attention any potential misstatements in the financial statements.

Going concern

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware, including the availability of working capital, levels of announced and forecast Government funding, constraints and ability to raise council taxes, assumption that the functions of the Council will continue in operational existence for the foreseeable future; and have considered a future period of at least one year from the date on which the financial statements will be approved.

INFORMATION PROVIDED

Completeness of information

The Council has provided you with access to all information of which I am aware is relevant to the financial statements. The Council has provided you with all other information that you have requested from us and given you unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

So far as I am aware, there is no information needed by you in connection with preparing your audit report (relevant audit information) of which you are unaware. I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you are aware of that information.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

There have been no deficiencies in internal control other than that reported by Internal Audit or brought to my attention in the auditors' Annual Governance Reports, of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

Compliance with laws and regulations

I am not aware of any actual or possible instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of all the Council's related parties, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities and guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

Sean Nolan
Director of Corporate Resources

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements. The Director of Corporate Resources is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

You have not brought to our attention any potential misstatements in the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor Peter Jones
Leader of the Council and Chair of the Governance Committee

Signed on behalf of the Council

Appendix C: Draft independent auditor's report

The following draft independent auditor's report covers the Council's Statement of Accounts which includes the pension fund financial statements.

Independent auditor's report to the Members of East Sussex County Council

Opinion on the Council's accounting statements

We have audited the accounting statements of East Sussex County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the County Fund Balance Sheet, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the notes to the accounting statements.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of East Sussex County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the notes to the accounting statements.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Council's responsibilities

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, East Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Signature:

....
Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK
8 September 2011

Accountants &
business advisers

East Sussex Pension Fund

Annual Governance Report

2010/11

August 2011

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Appendices

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

1.1 This report sets out our findings from the audit of the pension fund financial statements contained within the financial statements of East Sussex County Council ('the Council'). Auditing standards and the *Code of Audit Practice* require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements. A summary of the audit findings and conclusions is included below:

Accounts	Findings and conclusion
Financial statements	No material errors regarding amounts recorded for classes of transactions or account balances were identified as a result of audit work. However, we noted that £58 million of Irish fixed interest corporate bonds had been incorrectly classified as UK Corporate investments in the Northern Trust (custodian) report and has since been corrected as Overseas Corporate fixed interest investments. There are no remaining uncorrected misstatements. Some areas of work remain outstanding at the time of drafting this report where we are awaiting responses from others and these are detailed in the report. Should this result in any significant issues, we will provide an oral update to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee at their meetings on 1 September and 8 September respectively. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified "true and fair" opinion.
Internal controls	We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened: • no independent authorisation of journals is required for pension fund journals whereas good practice would require independent authorisation of all manual journals created and posted to the SAP nominal ledger • the reconciliation of benefits payable from AXISe to the SAP nominal ledger had not been evidenced by the person performing this check.
Other matters	We noted that on a number of occasions that admitted or scheduled bodies had failed to pay contributions to the Council within the 19-day due date. All contributions relating to 2010/11 have since been received, We have recently received the draft Pension Fund Annual Report and this will be reviewed in advance of providing our opinion on the pension fund accounts.

2 Introduction

2.1 This report sets out our findings from the audit of East Sussex Pension Fund financial statements contained within the financial statements of East Sussex County Council ('the Council') for the year ending 31 March 2011. Our report is presented to the Council, as the administering authority, in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, which requires us to report key findings from the audit to those charged with governance, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, and the Audit Commission's *Code of Audit Practice*. These require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements.

2.2 The contents of this report has been discussed and agreed with the Deputy Director of Finance and we have reported orally to management other non-significant findings from our audit.

2.3 Recommendations in response to the key findings identified by our audit of the pension fund financial statements are provided in the action plan at appendix A. These recommendations have been discussed with officers and responses are included in the action plan where appropriate.

2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant.

Fee outturn

2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan. We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee of £44,878 with management, before we report the final fee outturn.

Independence

2.6 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in our Audit Plan for 2010/11, has remained valid throughout the period of the audit.

2.7 We would like to thank staff for their co-operation and assistance provided throughout the audit.

3 Financial statements

Requirements

3.1 We are required to provide an opinion on whether the pension fund financial statements contained within the financial statements of the Council give a true and fair view of the financial transactions of the pension fund 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, and have been properly prepared in accordance with the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom.

3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.

3.3 We identify the principal areas of risk of material misstatement from our knowledge of the pension fund, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.

3.4 In carrying out our work we determine and apply a level of materiality. The audit cannot be relied upon to identify *all* risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements.

3.5 We are also required to set a second level of materiality (known as "performance materiality") which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £620,000 for investments and £100,000 for all other items in the Net Assets Statement and transactions other than investment movements in the Fund Account to be trivial, unless the misstatement is indicative of fraud.

3.7 We will identify material corrected misstatements individually. We will request that any non-trivial uncorrected misstatements be corrected.

Reporting to those charged with governance

3.8 We report to you:

- our assessment of and response to **significant risks** in the financial statements
- significant qualitative aspects of **accounting practices** including the application of the applicable **financial reporting framework**
- significant difficulties that we have encountered during the course of the audit
- significant matters discussed, or subject to correspondence with management or other employees
- material **misstatements** that have been **corrected by management**
- **uncorrected misstatements**
- **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance
- significant deficiencies in **accounting and internal control systems** identified during our work
- matters required to be reported by **other auditing standards**
- any **other audit matters of governance interest** relevant to the financial reporting process
- expected modifications to the **audit report**.

3.9 We have highlighted in the items above those areas where we have communicated issues from our audit. Our comments in these areas are set out in order below.

Significant risks of material misstatement

3.10 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.

3.11 We reported to you our risk assessment in the 2010/11 Audit Plan issued in December 2010. We have since undertaken a more detailed assessment of risk following our completion of the interim review of internal controls and review of the draft Statement of Accounts. Our updated risk assessment was reported to you in our updated Audit Plan circulated on 3 August 2011.

3.12 The significant audit risks identified during our risk assessment and communicated to you, along with our audit response to those risks, are set out below:

Management override

3.13 Management override refers to the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding what might appear to be effective internal controls. Management is in a unique position to perpetrate or conceal the effects of fraud through recording fictitious journal entries, inappropriately adjusting assumptions and changing judgments used to estimate account balances, engaging in complex transactions that are structured to misrepresent the financial position, and altering records and terms related to significant and unusual transactions. Therefore, we are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our Audit Plan.

3.14 Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

3.15 We have reviewed material accounting estimates identified as having high estimation uncertainty or subject to a significant degree of judgement and further detail is provided in the section on Appropriateness of management estimates below.

Valuation of private equity and infrastructure funds

3.16 The process for recording private equity and infrastructure funds at appropriate year end fair value within the financial statements is complex given the method in which such information is obtained from the fund managers and updated by Northern Trust custodians at 31 March 2011.

3.17 We have agreed the balances in the financial statements through to underlying accounts provided by the fund managers and information regarding the pension fund's share of the holding. We have also reviewed the AAF 01/06 or SAS 70 assurance reports for the relevant fund managers, although Adam Street fund manager does not obtain or publish independent assurance reports.

Contributions from admitted and scheduled bodies

3.18 Management undertake high level analytical procedures over the level of contributions received from admitted and scheduled bodies and request annual LGPS 31 returns. However, these bodies have not previously been required to submit assurance statements to confirm that contributions deducted from payroll are accurate and complete for current members of the pension scheme.

3.19 Management has therefore put in place arrangements this year to request assurance certificates from admitted and scheduled bodies to support the accuracy of deductions and contributions paid to the pension fund. A number of the certificates have not yet been received from bodies and we will continue to monitor progress with receipt of these returns.

3.20 For a sample of bodies, we have further requested sight of underlying evidence of checks carried out on contributions or required that the body complete a return showing the calculations for a sample of staff. For those returns received to date, appropriate evidence has been provided to support the accuracy of the contributions from admitted and scheduled bodies.

Accounting practices and financial reporting framework

3.21 The pension fund accounts have been prepared in accordance with the Code of Practice and have, in all material respects, correctly applied the relevant accounting policies.

3.22 While this is the first year of adoption of IFRS in local government, this did not have an effect on the accounts of the pension fund as the requirements of pension scheme accounting under IFRS are consistent with the requirements under UK GAAP and the Pension SORP.

Accrual for fund manager fees

3.23 Fund manager fees are appropriately accrued where information is available. However, we note that the Marathon fund manager fee is based on outturn performance and the fee is not calculated by the fund manager until some time after the year end. Management has not included any accrual for fees based on a best estimate of the amount that it is likely to be charged. While this is a departure from the accounting policy to accrue for expenses incurred to the balance sheet date, we accept that charges are unlikely to be material (but may be non-trivial). As this information is not available at this time, and will not be material, we have not recorded any uncorrected misstatement in this regard.

Accounts preparation process

3.24 The requirement for Members to approve the draft Statement of Account by 30 June was removed in the Accounts and Audit Regulations 2011, however these regulations did introduce the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June 2011. The financial statements were signed and presented for audit on 30 June 2011.

3.25 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of working papers on 21 June, in line with the agreed timetable. Additional working papers were provided throughout the audit process.

Appropriateness of management accounting estimates

3.26 Investments are carried at fair value and the majority of investments managed by fund managers are held in quoted securities and bonds in active markets, where fair value is readily available. A number of investments are held in private equity and infrastructure funds (see above significant risk). The fund manager provides information on the value of the fund and Northern Trust, as custodian, update this for contributions and withdrawals made by the pension fund up to 31 March 2011. Management rely on the expert valuation undertaken by the fund manager and there are no significant judgements or estimates over the basis of the fair value estimates of these assets undertaken by management.

3.27 There are no other significant judgements or accounting estimates undertaken by management.

Misstatements corrected by management

3.28 No material errors regarding amounts recorded for classes of transactions or account balances were identified as a result of audit work. However, we noted that £58 million of Irish fixed interest corporate bonds had been incorrectly classified as UK Corporate investments in the Northern Trust (custodian) report and has since been corrected as Overseas Corporate fixed interest investments.

Uncorrected misstatements

3.29 Our audit has not identified any material or non-trivial misstatements which management has not adjusted. We will provide an update at the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee meeting should we identify any items during the final clearance of outstanding issues.

Written representations

3.30 We are required by auditing standards to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as appendix B.

3.31 We do not anticipate any changes being required before providing our opinion on the pension fund accounts.

Accounting and internal control systems

3.32 We have reviewed the key financial and operational systems which contribute to the preparation of materially accurate pension fund accounts. The purpose of the audit is for us to express an opinion on the pension fund financial statements contained within the Council's financial statements. Our audit is not designed to identify all deficiencies in the system of internal control or to identify all improvements which might be necessary to address the deficiencies identified.

3.33 The audit included consideration of internal controls relevant to the preparation of the pension fund accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention.

3.34 Your key financial systems are:

- nominal ledger
- investments
- cash and bank
- contributions receivable
- benefits payable
- membership information

3.35 Where possible, we sought to use the work of Internal Audit and thereby avoided unnecessary duplication of audit effort. We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

3.36 We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant::

Journal authorisation

3.37 There is no requirement for an independent authorisation of journals for pension fund journals whereas good practice would require independent authorisation of all manual journals created and posted to the SAP nominal ledger

3.38 While a screenshot of each investment journal input into SAP is retained with the supporting Northern Trust report, there is no signature or other evidence confirming that the journal input has been reviewed and agreed back to the Northern Trust report.

Monthly reconciliation of pension payments between AXISe and SAP

3.39 A monthly reconciliation is carried out between pension payments in AXISe and the SAP nominal ledger. However, this check is not evidenced by the person undertaking this reconciliation and increases the risk that the reconciliation may not have been performance or completed appropriately.

3.40 We have included in appendix A any recommendations arising from issues identified during our work.

Other auditing standards

Risks of material misstatement due to fraud (ISA 240)

3.41 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.42 We have a responsibility to give specific consideration to the potential risk of material misstatement of your pension fund financial statements due to fraud and error, including the risk of fraudulent financial reporting. In order to identify risks of material misstatement due to fraud, and the controls you have put in place to mitigate those risks, we have:

- discussed your anti fraud and corruption arrangements with officers and those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the financial statements arising through fraud
- made enquiries regarding instances of actual fraud you have brought to our attention.

3.43 We have been informed that there is no known or reported material fraud or corruption suffered by the pension fund and we did not identify any significant fraud risks that affected our audit programme for the pension fund financial statements.

3.44 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Late payment of contributions from admitted and scheduled bodies

3.45 There have been 45 instances of late contributions by 20 of the admitted and scheduled bodies. Of the 45 instances of late contributions, 10 are attributable to De La Warr Pavillion Trust, six to Sussex Coast College, and five are attributable to Surrey & Sussex Probation Board.

3.46 The longest period was 11 days after the deadline and all contributions relating to 2010/11 have now been received.

Pension fund annual report and accounts

3.47 The Council is required to publish an annual report and accounts on the activities of the pension fund before 1 December 2011. In recent years, the Council has provided this ahead of the date that we provide the audit opinion on the pension fund accounts contained within the Council's Statement of Accounts. This allows us to provide the audit opinion on both the pension fund accounts and the annual report at the same time.

3.48 We have recently received the draft Pension Fund Annual Report and this will be reviewed in advance of providing our opinion on the pension fund financial statements.

Audit report

3.49 Subject to satisfactory resolution of the following outstanding work and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the pension fund accounts:

- evidence of correct classification of investments and clearance of audit queries regarding classification in fund manager reports, Northern Trust analysis and the pension fund accounts
- evidence to support vendor accounts (other current assets) receivables
- review of the East Sussex Pension Fund Annual Report and Accounts 2010/11
- supporting documentation for bulk transfer-in from Sussex Magistrates post year end.

3.50 We will provide an oral update on these outstanding issues at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting on 1 September and 8 September respectively.

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial systems					
Admitted and scheduled body assurance certificates A number of the assurance certificates to support the correct calculation of pension deductions have not been received from the admitted and scheduled bodies to date.	It is recommended the admitted and scheduled bodies are reminded of the requirements to complete the assurance certificates. It is also recommended that the bodies are sent a template to complete, to evidence their checks on the accuracy of contributions throughout the year.	Medium	Following agreement with PKF the new style compliance LGS31 form has been implemented providing details of sums deducted, which must be returned each month by the employer to SERCO. This form must be signed by their section 151 officer (or equivalent officer). Employers are required to inform SERCO (our outsourced pensions administrator) of their pensionable pay figure on a monthly basis. Using the employer's contribution rate as advised by the actuaries, SERCO then calculate what employers contributions should have been received for each employer, and check this to the amounts actually received, as stated on the standard forms, known as LGS31.	SERCO	On-going

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Investment journals There is no requirement for an independent authorisation of journals for pension fund journals whereas good practice would require independent authorisation of all manual journals created and posted to the SAP nominal ledger.	Management should consider requiring that all manual journals are subject to independent review and authorisation.	Medium	The Council Key Procedure notes states :- “Any Journal that contains a single debit or credit entry of £1m or more should be authorised by a senior finance officer (i.e. at the level of a member of the Finance Officers group). There is an exemption for the journals put through for Pension Management, Capital Finance and Treasury Management, where the regular reconciliation of borrowing and investment codes indicates that there is adequate control over the detailed transactions.” Therefore, the East Sussex Pension Fund accounts merely mirror the accounts from the Custodian, Northern Trust. Since this accounting is processed on a quarterly basis, the journals required for asset value “movements” are always in excess of £1m. Management will review current process re SAP screenshot of each investment journal input into SAP.	John Shepherd Finance Manager (Pensions)	Ongoing October 2011

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Reconciliation of AXISe and SAP A monthly reconciliation is carried out between pension payments in AXISe and the SAP nominal ledger. However, this check is not evidenced by the person undertaking this reconciliation and increases the risk that the reconciliation may not have been performance or completed appropriately.	It is recommended that evidence of this key control is retained.	Medium	A formal reconciliation process is signed off on a quarterly basis by Tony Mccormack & Serco for Transfers In, Transfers Out, and Contributions for Employees and Employers. However, The reconciliation process for Benefit Payments is solely undertaken by SERCO.	SERCO	On-going
Late payment of contributions There have been 45 instances of late contributions by 20 of the admitted and scheduled bodies. Of the 45 instances of late contributions, 10 are attributable to De La Warr Pavillion Trust, six to Sussex Coast College, and five are attributable to Surrey & Sussex Probation Board. The latest instance was 11 days after the deadline and all contributions have now been received.	Management should remind admitted and scheduled bodies or their duty to pay pension contribution to the pension fund in a timely manner.	Low	The SERCO Pensions team are very proactive in chasing all employers of the East Sussex Pension Fund to ensure that all contributions are paid over on a timely basis. Any employers who miss the 19th deadline are given a reminder by SERCO. There has been a much improved trend for 2011/12 to date. This trend shows that the reminder system from SERCO has been successful.	SERCO	On-going

Appendix B: Draft letter of representation

The following draft letter of representation covers the Council's Statement of Accounts which includes the pension fund financial statements. Representations for the preparation of the Statement of Accounts will be sought from the Director of Corporate Resources (as the Chief Finance Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

Specific representations that do not relate to the pension fund financial statements have been greyed-out in this report.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

8 September 2011

Dear Sirs

Financial statements of East Sussex County Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of East Sussex County Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Director of Corporate Resources and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically:

IAS 19 pension liabilities assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business of the Council. These assumptions include:

- Rate of inflation 2.8%
- Rate of increase in salaries 5.1%

- Rate of increase in pensions 2.8%
- Rate for discounting scheme liabilities 5.5%
- Expected return on assets 6.9%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Grant receipts in advance

I confirm that the judgements made in assessing whether or not to defer recognition of unspent grants are reasonable and in accordance with the Code and CIPFA's guidance. In particular, the Council has deferred recognition of revenue receipts in advance of £7,144,000 and capital grants and contributions receipts in advance of £32,085,000 on the grounds that there are conditions attached to these amounts and that there is no reasonable assurance at the date of approving the Statement of Accounts that these conditions will be met.

Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation.

Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

Plans or intentions

The Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you the following actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

- a number of legal cases against Adult Social Care
- insurance claims
- employment tribunal for a member of staff
- outstanding cases where the Council charged clients for the provision of services under the Mental Health Act 1993
- four equal pay claims and a collective grievance which have been lodged against the Council
- a challenge by a landowner concerning the Council's decision to approve an application to register land known as West Beach as a town or village green.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Uncorrected misstatements

You have not brought to my attention any potential misstatements in the financial statements.

Going concern

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware, including the availability of working capital, levels of announced and forecast Government funding, constraints and ability to raise council taxes, assumption that the functions of the Council will continue in operational existence for the foreseeable future; and have considered a future period of at least one year from the date on which the financial statements will be approved.

INFORMATION PROVIDED

Completeness of information

The Council has provided you with access to all information of which I am aware is relevant to the financial statements. The Council has provided you with all other information that you have requested from us and given you unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

So far as I am aware, there is no information needed by you in connection with preparing your audit report (relevant audit information) of which you are unaware. I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you are aware of that information.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

There have been no deficiencies in internal control, other than that reported by Internal Audit or brought to my attention in the auditor's Annual Governance Report, of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

Compliance with laws and regulations

I am not aware of any actual or possible instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of all the Council's related parties, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities and guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

Sean Nolan
Director of Corporate Resources

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements. The Director of Corporate Resources is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

You have not brought to our attention any potential misstatements in the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor Peter Jones
Leader of the Council and Chair of the Governance Committee

Signed on behalf of the Council

Appendix C: Draft independent auditor's report

The following draft independent auditor's report covers the Council's Statement of Accounts which includes the pension fund financial statements. Sections of the report that do not relate to the pension fund accounts have been greyed-out.

Independent auditor's report to the Members of East Sussex County Council

Opinion on the Council's accounting statements

We have audited the accounting statements of East Sussex County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the County Fund Balance Sheet, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the notes to the accounting statements.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of East Sussex County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the notes to the accounting statements.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Council's responsibilities

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, East Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Signature:

....
Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK
8 September 2011

East Sussex County Council

Statement of Accounts

2010/11

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Notes to the Accounts Index

Foreword by the Director of Corporate Resources

Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). To make the document as useful as possible to its audience and make meaningful comparisons between authorities the Code requires:

- All Statements of Accounts to reflect a consistent presentation;
- Interpretation and explanation of the Statement of Accounts to be provided;
- The Statement of Accounts and supporting notes to be written in plain language.

This Statement of Accounts comprises various sections and statements, which are briefly explained below:

- Foreword - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2010/11.
- The Statement of Responsibilities – this details the responsibilities of the Council and the Director of Corporate Resources concerning the Council's financial affairs and the actual Statement of Accounts.
- The Independent Auditor's Report to the Council – this is provided by the external auditors, PKF (UK) LLP, following the completion of the annual audit.
- Annual Governance Statement – the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2010/11. However, any significant events or developments that occur between 31 March 2011 and the date on which the Statement of Accounts is signed by the Director of Corporate Resources must also be reported.
- The Statement Reporting Reviews of Internal Financial Controls – this explains the specific financial framework that underpins maintaining and developing excellence in financial management.
- The Core Accounting Statements, comprise:

  ~ The Movement in Reserves Statement (MiRS) - this new statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

  ~ The Comprehensive Income and Expenditure Statement (CIES) – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to switch particular expenditure to be met from capital resources.

  ~ The County Fund Balance Sheet – like the Comprehensive Income and Expenditure Statement is also fundamental to the understanding of the Council's financial position as at 31 March 2011. It shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories, the first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments Between Accounting Basis and Funding Basis under Regulations'.

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

- The Statement of Accounting Policies – this statement explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view.
- The Pension Fund Accounts – the East Sussex Pension Fund is administered by the Council; however, the Pension Fund has to be completely separate from the Council's own finances. This statement is an extract from the Pension Fund Annual

Report and summarises the financial position of the East Sussex Pension Fund, including all income and expenditure for 2010/11, assets, and liabilities as at 31 March 2011.

- A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

Changes to accounting policies

During 2010/11, the Council completed the mandatory transition of its Accounting Statements to comply with International Financial Reporting Standards (IFRS), with effect from 1 April 2010. These international standards govern the way financial transactions are brought into account and how they are reported. The transition has affected both the appearance of the Council's Accounting Statements and its financial position. In making the transition to IFRS, the Council has had to revisit and restate the financial statements it published for 2009/10. The Balance Sheet closing balance published at the end of 2008/09 has also been restated. This was necessary in order to present users of the Accounting Statements with meaningful comparative information. These standards have been used in private sector reporting for a number of years, to provide consistency and comparability between financial reports in the global economy.

The main changes to the Council's Accounting Statements are:

- New terminology within the financial statements.
- Re-classification of Leases – where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Finance leases to be identified as the Council's assets.
- Accounting for Short-term Accumulating Compensated Absences - the Council now recognises a liability for the value of benefits earned by employees but not taken by the year end.
- Component accounting - the requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.
- Fixed Assets are now known as Non-Current Assets and all operational non-current assets (properties, other land building, vehicles, plant etc) are classified under the heading of Property, Plant, and Equipment.
- Stocks are now referred to as Inventories.
- Accounting for Grants and Contributions.
- Separate classification of Cash Equivalents - the Council has adopted a policy of recognising monies held with financial institutions that are repayable without penalty on notice of not more than one working day as Cash Equivalents for they represent highly liquid assets.
- Available for Sale Assets - a new category of non-current assets has been introduced. Any such asset that is held for sale and is being actively marketed is shown under this classification.
- Investment Properties - there is now a much stricter definition of the assets that qualify as investment properties. Only assets that are solely held for rental income or capital appreciation are now classified as Investment Properties.

There are many changes to the appearance of the Accounting Statements including additional, or expanded, disclosure notes, titles and descriptive terms have also changed. As an example, Fixed Assets become Property, Plant, and Equipment. A glossary has been added at the end of the Statement of Accounts to assist readers with these changes and to explain some of the more technical terms used.

First-time adoption of International Financial Reporting Standards (IFRS 1)

In accordance with IFRS 1, as the Council has adopted IFRS for the first time in 2010/11, comparative amounts have been restated to reflect the new accounting policies, and the date of transition to IFRS is the beginning of the earliest comparative year reported in the financial statements i.e. 1 April 2009.

Financial Report

This section of the Statement of Accounts for 2010/11 sets out:

- The construction of the original budget for 2010/11.
- The final outturn for 2010/11.

Setting the Revenue Budget for 2010/11 – the draft budget strategy

The Council has developed policy steers, which set out key priorities. The process used by the Council to bring together the three elements of policy, performance, and finance is now known as the Reconciling Policy, Performance, and Resources Process. This approach has been commended by the Audit Commission and is used as an example of good practice.

Work started on developing the draft budget strategy for 2010/11 during the summer of 2009. This involved officers and Cabinet Members together looking at overall Council expenditure by:

[1] Reviewing and updating the forecast of likely resources for the period 2010/11 to 2013/14.
[2] Each Directorate reviewing its budgets. In order to ensure council tax remained at a supportable level there was a strong focus on identifying areas for making savings alongside recognition where spend pressures were acute.

[3] Updating the Medium Term Financial Plan with the most up to date details of service pressures and growth proposals.

During the autumn of 2009 each Portfolio Holder and Director met with the Lead Member for Resources and the Director of Corporate Resources to review the spend pressures and savings proposals and hence to properly reconcile policy with available resources. The expenditure proposals were prioritised, revised, and then incorporated within the draft Budget Strategy.

Partner Consultation on expenditure priorities
A consultation meeting took place in November 2009, where members of Cabinet and the Chief Officer Management Team shared with partners from the East Sussex Strategic Partnership the challenges and opportunities of the coming years and listened to views on the Council's priorities and budget proposals.

The following priorities were identified at the consultation meeting:
- The need for the Council and its partners to work together for regeneration, to gather and share intelligence to tackle the changing economic climate. Support for local businesses and the local workforce was highlighted as key;
- The increased importance of partners sharing services in a bid to improve services and deliver efficiencies;
- Support for the elderly population of East Sussex from the Voluntary and Community Sector to access the right services to meet their needs; and
- Broadband connectivity.

Resident Consultations on expenditure priorities
During 2009, East Sussex residents were asked for their priorities to help us set the 2010/11 budget. Through the East Sussex Residents' Panel (a consultative group made up of a representative cross-section of 1,900 East Sussex residents) and “Your Community” survey, residents highlighted the following priorities:
- Road Safety;
- Community Safety;
- Passenger transport;
- Activities for teenagers; and
- Road and pavement repairs.

The budget proposals presented to Cabinet in January 2009 and 2010 allocated additional resources to most of these priorities.

Income
Our 2010/11 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant (RSG), Area Based Grant and Specific Grants (attributed directly to services);
- From Residents – Council tax;
- From Business – Non-Domestic rates (collected nationally and used to fund RSG);
- From Goods and Services – receipts from service users.

The Government undertook a Comprehensive Spending Review in 2007 and 2010/11 was the third year of a three year settlement. Consequently, there was a degree of certainty as to the outcome of the amount of formula grant due for 2010/11. We were therefore able to plan our 2010/11 budget based on a good estimate of available income from Government. The increase in general revenue grants for the Council in the 2010/11 Settlement was 3.6%, which was the same as our planning assumption and amounted to an increase of £3.4m.

For residents the increase in the council tax for 2010/11 was 2.7% (2009/10 3.5%) which was consistent with the published strategy of reducing the annual increase in tax.

Setting the Revenue Budget for 2010/11 – the final budget strategy
The final budget strategy was presented to Council in February 2010. Overall, the budget set for 2010/11 targeted growth to our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

In setting the budget for 2010/11, the County faced cost increases of £21.4m just to maintain service levels. After allowing for the general grant increase of £3.4m and planned increase in council tax, the net cash increase available for services amounted to £9.9m. Thus, savings of £11.5m were required to balance the budget.

The key steps that we took to make savings included:

- We reduced administration and procured services more cost effectively from our suppliers.
- We made inflationary increases available only for priority services.
- We made careful use of all our specific grant funding and targeted priority services.
- We managed our money prudently, which contributed to interest earned on cash balances.
- We minimised the cost of borrowing to fund our capital programme.

The key assumptions used were as follows:

Expenditure

- 1% for pay awards.
- 1% for price inflation.

Income

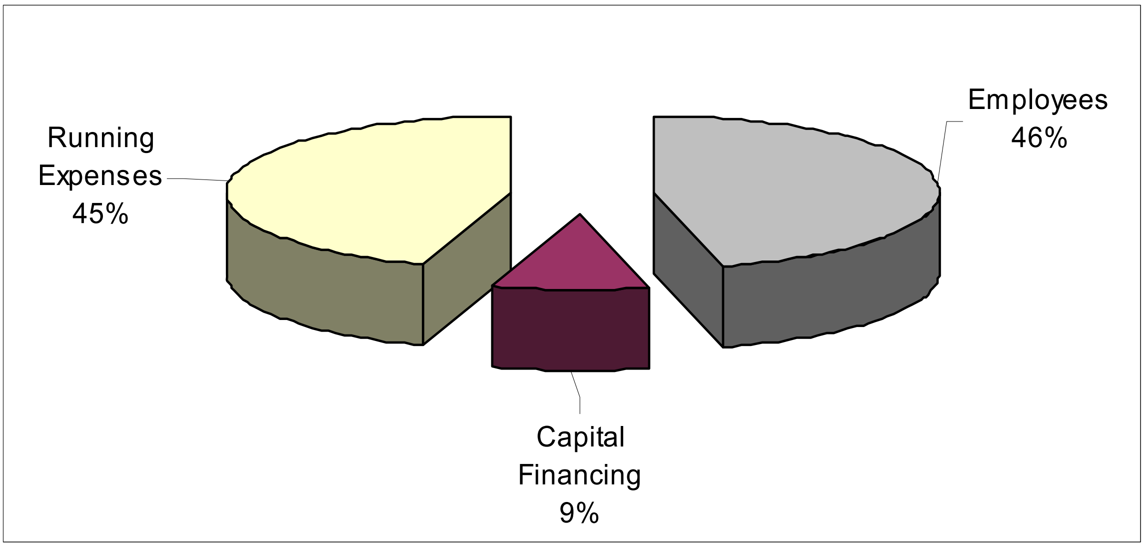
- A 3.6% increase in general revenue grant.
- A 2.7% increase in council tax.
- A collection fund deficit .

So how much was spent on the revenue account

The Comprehensive Income and Expenditure Statement at page 24 shows how the Council money is spent and where the money comes from, as summarised in the charts below.

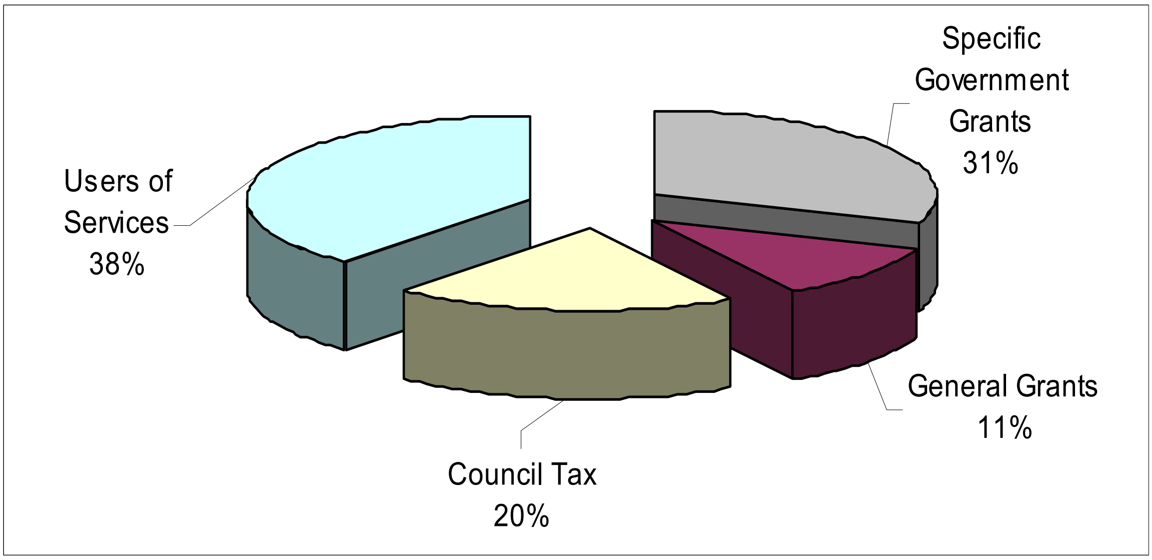
In total, our net revenue expenditure was £371.0m. The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 46% (44% in 2009/10) of the expenditure. Running expenses including costs of premises, transport, supplies, services and third party payments account for just under half of all costs at 45% (47% in 2009/10), Capital financing (the cost of borrowing, interest and repayments) and accounting for on-going Private Finance Initiative (PFI) within the ESCC Balance Sheet took the remaining 9% (9% in 2009/10).

Where the money came from



The chart shows that 31% of our income came from Specific Government Grant (31% in 2009/10), 20% of our income came from residents through the council tax (20% in 2009/10), 11% of our income came from business through the Non-Domestic rates (10% in 2009/10), and 38% of our income came from users of our services (39% in 2009/10).

Analysis of the Revenue Budget

The table below sets out the revenue budget for 2010/11 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate	Actual Outturn	Variation
	£m	£m	£m
Adult Social Care	160.6	160.2	0.4
- Adult Social Care - Supporting People	11.1	10.3	0.8
Governance and Community Services	18.8	17.5	1.3
Children's Services Department	90.4	89.0	1.4
Corporate Resources	12.9	12.1	0.8
Economy, Transport & Environment	69.5	68.9	0.6
Service Spend (Ex DSG Related)	363.3	358.0	5.3
DSG Related (i.e. Schools)	-	(3.7)	3.7
Treasury Management, etc.	7.7	7.0	0.7
LAA Performance Reward Grant	-	(1.2)	1.2
	371.0	**360.1**	**10.9**
Underspend on TM to fund 11/12 one offs	-	0.7	
Income from LAA Reward Grant to fund 11/12 one offs	-	1.2	
Income from the Collection Fund	-	-	
Transfers to / (from) Balances	-	9.0	
Net Budget Requirement	**371.0**	**371.0**	
Financed From:			
Revenue Support Grant	12.7	12.7	
Non-Domestic Rates	87.4	87.4	
Council Tax	237.8	237.8	
Adjustments for earlier years	(0.6)	(0.6)	
Area Based Grant	33.7	33.7	
	371.0	**371.0**	

Balances

Opening	7.6	7.5
Added / (withdrawn) during the year	-	-
Closing	**7.6**	**7.5**

Careful monitoring of budgets during the year has ensured that service pressure areas have been identified early and action taken by directorates to manage potential variations within their cash limited budgets.

The table shows actual spending of £360.1m during 2010/11, based on the total cost of providing services including charges for support services, and use of assets. The current estimate of service spending for the year was £363.3m, with a Net Budget Requirement of £371.0m. Total actual expenditure was 1.46% below the current estimate of £363.3m.

The overall service underspend of £5.3m against directorates' budgets represents just 0.6% of the original gross budget of £859m. This excludes the effect of below the line items, whose impact is addressed through general balances. Under the Council's Standard Financial Procedures, over and underspends for directorates and schools have been carried forward to 2011/12.

The Council's general balance of £7.5m at the year end is in line with the target minimum level of 2.25% of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and does not agree directly to the analysis of expenditure contained in the CIES. The disparity arises because the CIES is presented in a prescribed Best Value Accounting Code of Practice (BVACOP) format, based on standard accounting practices, which facilitate direct comparisons with other Local Authorities. For example, for external reporting purposes, the CIES includes gains and losses on the sale of fixed assets. The differences in presentation and convention may significantly affect the reported cost of services, but it has no effect on the total reported expenditure of the County Council.

Earmarked Reserves

The financial statements also set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Details of the Council's earmarked reserves can be found on page 55, within note 10 to the Core Accounting Statements. Current reserves are £154m, excluding unusable waste PFI reserve. Of this £69.8m relates to reserves to meet the estimated future costs of managing the waste facility. Now that the construction is nearing completion that key risk is fading and it will be possible to look at this anew. The remainder of the significant reserves are to help meet the cost of the £290m capital programme together with cover for items such as insurance liabilities. Certain reserves are held to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Council. The Council also has a number of budget provisions set aside to meet known liabilities. The main provisions include the claims, redundancies, and section 117 liabilities. Provisions held at 31 March 2011 totalled £6.3m (Note 24).

The level of the County Council fund is consistent with the overall financial environment and the key financial risks faced by the Council. This risk assessment is carried out at least twice annually and takes account of circumstances at the time. The Chartered Institute of Public Finance and Accountancy takes the view that there is no theoretically right level of reserves or a generally applicable minimum level of reserves because the factors that affect the need for reserves - such as inflation rates and the certainty about Local Authorities' spending plans – vary over time, but believes that elected members should agree on the appropriate level of reserves in the light of the advice given by the Chief Finance Officer.

There remain, however, significant pressure/risk issues which reflect the routine reality of the complexity of the Council's financial operations – in particular in relation to Children's Services and Adult Social Care, which will require close monitoring during the year. In addition, major project delivery (in addition to the waste PFI scheme this includes Bexhill Hastings link road, and Academies in Children's Services) carry significant risks as a matter of norm. All this is compounded greatly by the short and medium term reality of major grant reductions due to the Comprehensive Spending Review (CSR) outcome and its effects on the Council. The Council plans for cuts in government revenue grants that the whole of Local Government expects for next year and beyond. In this context, we always look closely at our reserves and we do not hold more than we need but equally we are prudent in setting aside money for new facilities and other major committed and planned capital investment.

The Capital Programme

A Prudential Code allows the Council to determine an affordable level of borrowing. This strategy, which includes the Authorised Borrowing Limit and prudential indicators for the Council is approved through our annual Treasury Strategy report to Council.

The Council can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding remains borrowing, most of which is for schools and for highways and transportation schemes. For each service area, capital bids for new projects are made in accordance with a plan, framework, and timetable.

In 2010/11, the County Council spent £73.0m (£26.9m net of external funding) on its roads, schools, and other capital projects. The original budget at the start of the year was £171.3m. 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 forms the revised estimate against which all post September monitoring takes place. The programme is also revised through formal approved variations as better information becomes available and further external funding is secured. The final revised budget for the year was £82.9m, of which £50.8m was supported by scheme specific resources giving a net provision of £32.1m.

The underspend of £5.1m compared to the revised net provision represents expenditure in advance of 2012/13 budgets of £0.6m, offset by scheme delays (slippage) of £5.7m.

The larger schemes during the year included the new archive and record office ‘The Keep’, structural maintenance of roads throughout the County, continuation of plans for the Bexhill and Hastings Link Road, Bexhill High School and many other improvements to schools and roads. During 2011/12, the Council plans to invest £99.2m, which will be funded as follows:

	£m
Borrowing	21.0
Capital grants and contributions	70.4
Capital programme reserve / invest to save	5.5
Revenue contributions	2.3
Total resources	99.2

East Sussex Pension Fund

During the year to 31 March 2011, the overall increase in the Fund due to positive performance in equity and other markets was estimated to be 6.9% compared to the average estimated increase in Local Authority funds of 8.2% per annum.

In line with the accounting standard IAS19, the Council’s net liability for future pension payments, as shown in the Balance Sheet, has reduced from £515.9m at the start of the year to £227.9m at 31 March 2011. Note 45 to the accounting statements provide detailed information.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2010, the actuary assumed a discount rate of 1.6% real (5.5% 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 2011, the actuary has advised that a rate of 2.6% real (5.5% nominal) is appropriate. All other things being equal, the change in the real discount rate over the year has resulted in a decrease in liabilities measured at today’s prices of around £138m, included in the actuarial gain recognised for the year in the Movement in Reserves Statement (MiRS).

- The Council witnessed significant improvement (similar to the vast majority of other employers) in the IAS19 balance sheet this year, with the IAS19 deficit smaller in monetary terms than last year. The principal reason for this is that pension increases are now linked to the Consumer Prices Index (CPI) following the Chancellor of the Exchequer’s Budget announcement in June 2010. Over the longer term, CPI is assumed to be 0.8% per annum lower than RPI.

- The IAS19 balance sheet as at 31 March 2011 relies on the results of the 2010 actuarial valuation of the Fund (whereas the Balance Sheet at 31 March 2010 was rolled forward from the results of the 2007 valuation). The 2011 Balance Sheet therefore allows for changes made to demographic assumptions at the 2010 valuation as well as changes to the membership data between 2007 and 2010. In summary, the movement in the IAS19 position is the overall result of a combination of factors.

Treasury Management Borrowing Facilities and Investments

The strategy for 2010/11, agreed in January 2010 was set against a background of market uncertainty and a prudent approach was taken with nearly all investments on an overnight basis (on call). The emphasis will continue to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than on yield. The strategy and limits are consistent with the proposed capital programme and revenue budget dealt with elsewhere on the agenda. The strategy aims to secure investment income of at least base rate plus 0.5% on the Council’s general cash balances. As will be clear from the events globally and nationally over the last eighteen months, it is impossible in practical terms to eliminate all credit risk. This Council seeks to be as prudent as possible. The current strategy agreed by Cabinet and as approved by subsequent full Council meetings is:-

- In the current economic climate, it is essential that a very prudent approach is maintained. This will be primarily achieved through investing for up to a period of three months with selected banks and funds which meet the Council’s rating criteria.
- It is also important to recognise that movements within the money markets can happen with no notice and the Director of Corporate Resources may have to amend this strategy in order to safeguard Council funds. As in the past, any such actions will be reported to the next Cabinet meeting. An example of that is exercising a judgement to place more weight on UK Government’s moral guarantee to high street banks if there are marginal movements in credit rating for the same high street banks.

- No new external borrowing was undertaken during the year, however the limits set out in the original strategy 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.
- Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored and will be taken if and when they emerge.
- Our policy gives some flexibility to borrow up to £23m in advance of future need. However, given the current interest climate, no external borrowing and certainly none in advance, is planned.
- The different elements of the total cash balances to be invested are dealt with as follows:
    a. Fire Authority – invested in line with own specific policy.
    b. Specific Council reserves – will not be separate for investment purposes.

Up to a maximum of £60m deposited up to a period of one year with any of the following: -

Bank / Fund
Barclays
Lloyds HBOS
Nat West/RBS
Santander (ex Abbey National)
HSBC
Nationwide
Individual Treasury Type Money Market Funds (AAA rated)
Individual Cash Type Money Market Funds (AAA rated)

Only banks which are eligible for the Government's Credit Guarantee Scheme AND meet the following minimum rating criteria for at least two of the designated agencies to be used.

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

The policy retains the ability to revert to some, or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tighten. Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information has been and will continue to be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, equity prices etc.) will be assessed when comparing the relative security of differing investment counterparties.

All of the investments will be classified as Specified Investments. These investments are sterling investments of not more than one-year maturity with institutions we deem to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These are considered low risk assets where the possibility of loss of principal or investment income is small. The Council does not have any Non Specified Investments which are of more than one-year maturity or with institutions which have a lesser credit quality.

Issues arising during 2010-11

~ National Overview

Short-term interest rates are expected to remain on hold for a considerable time. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of the broad money supply.

The main drag upon the economy is expected to be weak consumer expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. Without a rebound in this key element of UK GDP growth, recovery in the economy is set to be weak and protracted.

Longer term interest rates are more volatile, given that these are being driven by a benign international backdrop and the effects of Quantitative Easing (QE).

~ Local Matters

Foreword by the Director of Corporate Resources

The difficult state of public finances nationally means that the public sector as a whole must find significant cost savings to help bring down public debt to a manageable level. Local government is already the most efficient part of the public sector and we have entered an era where even more innovative solutions are required. Greater sharing of resources, people and capital equipment between Local Authorities is vital to meet efficiency savings and we are working with partner authorities in the south east to ensure this is achieved.

The uncertainty over future interest rates increases the risks associated with Treasury activity. As a result, the Council will take a cautious approach to its Treasury strategy. Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Director of Corporate Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account any potential risks. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term. With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper, shorter term debt, although the Director of Corporate Resources and Treasury consultants (Sector) will monitor prevailing rates for any opportunities.

2011-12 and beyond

Local authorities in the United Kingdom will continue to keep their accounts in accordance with 'proper practices'. IFRS are International Financial Reporting Standards, and are accounting standards issued by the International Accounting Standards Board (IASB). CIPFA/LASAAC continue to considered future changes to IFRS for Local Government and welcomes the further adoption of IFRS, as it reinforces the drive to improve financial reporting and enhance accountability for public money.

Following the general election, the Coalition Government has announced intentions to make rapid cuts in public spending. The Council has been expecting a very difficult funding outlook for Local Government for some considerable time. At its meeting in July 2010, in anticipation, the Cabinet set broad planning guidelines for 2011/12 onwards, in respect of both general Formula Grant and the various (and numerous) separate specific grant streams. Prior to that, the Council dealt effectively with the significant in-year grant cuts following the Chancellor's emergency budget in June 2010.

In October 2010, the Chancellor set out the Comprehensive Spending Review (CSR) decisions for all public spending for the next 4 years from 2011/12 through to 2014/15. This included Local Government in terms of national control totals only. The CSR implied that a number of current specific grants would be combined with Formula Grant and then this amalgamated quantum would be reduced by 22% in cash terms by 2014/15. The CSR also signalled the cash cut in Formula Grant over 4 years would be heavily front-loaded in the first year (2011/12). All this reflected national average changes; as the position for individual councils could vary significantly around that average depending upon the Government's choice of grant 'floors'.

At the time of the CSR, the Government also signalled a new grant to support the Council tax freeze promise for 2011/12 as well as significant reductions in the number of ring fenced grants. Both of these developments were welcomed by the sector as were the opportunities to bid for new economic growth funds. Dealing first with Formula Grant; as indicated in the CSR, the Government combined a number of existing specific grants into formula grant and then has cut this adjusted base quantum of formula grant by 9.9%, on average, for 2011/12 with a further cut of 7.8% on average for 2012/13.

Outside the new Formula Grant, the settlement has seen very significant reductions in the quantum of existing grants in the Children's Services. The Government have announced the creation of a new (un-ring fenced) "Early Intervention Grant". This is actually made up of a number of existing Children's Services grants, covering Sure Start and other areas, but with an average of 20% reduction compared to the equivalent grants in 2010/11 (or some 10% when compared to the same grants after the in year cuts forced during 2010/11). In addition, the Children's Services sector has lost numerous other funding streams, some of which have been used by Government to help finance the relative protection of the DSG for schools. Nationally, the combination of reduced "Early Intervention Grant" and other lost/removed grants in Children's Services will likely exceed 20% of the equivalent funding streams received in the current year. Outside Children's Services, it appears a number of Home Office/community safety grants have been lost completely (although the caveat is that there is some indication that Government may announce some new or retained community safety grants later this month).

We estimate that we have lost £10.1m of Children's Services grants – outside Dedicated School Grant and Formula Grant, compared to the original equivalent quantum for 2010/11. In addition the Department calculates they may have lost a further £3m from DSG changes; although some of this may be recovered through trading with schools. In total, therefore, a prudent calculation of loss of grant capacity of £13.3m. In the Community Safety related area we estimate a loss, currently, of £0.7m in grants (almost exclusively from the Home Office), but with the caveat above that some may be restated. In relation to Learning Disability, it is pleasing to note that the expected quantum of grant (at £17.4m) to cover the negotiated recent transfer of responsibilities from Health has been received in line with expectations.

The Government have also indicated that they will provide additional resources – via local PCTs – for Adult Social Care subject to "agreed plans" for its use. We clearly need to understand the terms involved but in our case it could amount to £6.9m gross. Adult Social Care had already anticipated £1.5m in their savings plans, which leaves £5.4m apparently to be received but yet to be allocated. It is strongly hoped this can be applied to mitigate higher impact ASC savings but that is yet to be confirmed. Finally, in terms of grant allocations we will receive an estimated £5.9m as a base grant to enable us to set a zero council tax increase for 2011/12.

~Academy and Foundation Schools

The creation and expansion of Academies builds on the Government's commitment and aims to raise standards for all children. As the Government embarks on major educational reform becoming an Academy offers a college or school independence, flexibility and more financial and operational freedom. Local Authorities have been encouraged by the Government to consider more schools for academy status where both attainment and pupil progression are low and where schools lack the capacity to improve themselves. The 2010/11 Statement of Accounts excludes the assets of (i) the Eastbourne Academy (formerly Eastbourne Technology College) which opened on 1st September 2010 and (ii) four schools in Hailsham, which have formed a co-operatitve learning trust. Two new academies in Hastings and St Leonards are currently in the implementation phase.

~Carbon Footprint

One of the Council's corporate objectives is a long-standing Policy Steer for "Effective Energy Management as a Contribution to Addressing Global Warming". This is manifested in the Council's investment decisions and the way buildings are managed and also anticipates the Carbon Reduction Commitment, which came into force from 1 April 2010. Initiatives during 2010/11 include:

- an invest to save programme for energy saving measures to Council buildings of nearly £1.2 million over the next four years, part funded by the Carbon Trust's SALIX fund;
- provision of £0.35m each year for five years to incorporate sustainable design features in new construction projects;
- commencement of the installation of Automated Meter Reading equipment in all buildings.

~Carbon Reduction Commitment

The Carbon Reduction Commitment energy efficiency scheme (CRC) was introduced in April 2010. This is one of the many initiatives designed to meet the Government's commitments to reduce carbon emissions and focuses primarily on energy usage within buildings. The Council has registered for inclusion within this scheme as its energy usage exceeds the qualifying threshold. Recent changes to the scheme mean that the first year (2010/11) is a reporting year only and there are no financial implications for the current year.

In 2011/12, the second year of the scheme the Council will be required to report on its energy usage in buildings and to purchase carbon allowances at a fixed price of £12 per ton of CO2. It is estimated that based on current levels of energy usage this will cost the Council in the region of £394,000 (excluding street lighting). This has been included in financial planning. The Council as part of its commitment to reducing its carbon emissions is well advanced in its preparations to meet the requirements of this scheme. Performance in the early years of the scheme is measured on two early action metrics;

- Conversion of meters to automatic meter reading (AMR), and
- Accreditation with a recognised carbon body.

The Council began a programme of meter conversion in March 2010 and now has 82% of its electricity and 83% of its gas meters converted to AMR. In December 2010, the Council gained accreditation with the Carbon Trust for the period up to March 2012.

The Director of Corporate Resources directs a Carbon Reduction board that meets quarterly and the board is looking at all options to further reduce our carbon footprint. We have an established insulation programme in our schools that utilise SALIX funding opportunities and we are currently establishing an involvement in solar energy projects.

The Council's Stewardship, Responsibilities and Financial Management Polices

The Council deals with considerable sums of public money. The Council's Financial Regulations provide the framework within which financial control is operated. To conduct its business efficiently, a Council needs to ensure that it has sound financial management and procedures in place and that they are strictly adhered to. Strict compliance with these policies ensures that the Council's policy objectives are pursued in a prudent and efficient way. These Financial Regulations provide clarity about the accountability of individuals – Cabinet; Members; the Chief Executive; the Monitoring Officer; the Chief Finance Officer (The Director of Corporate Resources) and Service Directors. The present policies provide for:

- The cash limiting of budgets.
- The allocation of pay and price contingencies at the start of the year with no further supplements.
- All variations to be met by directorates from existing budgets.
- The carry forward of any over or underspends at the year end.

There are five key areas covered by the Financial Regulations, these are:

1. General financial management and planning;
2. Accounting and audit arrangements;
3. Control of resources (finances, staffing, systems, and contracts);
4. Banking, treasury, investment, and insurance;
5. External arrangements.

Foreword by the Director of Corporate Resources

These Financial Regulations link with other internal regulatory documents forming part of the County Council's Constitution, including Standing Orders, Standard Financial Procedures and Departmental Guidance and Procedures. This Statement of Accounts is part of that stewardship process, part of the process for being publicly accountable for public money.

The responsibilities of the Council and its designated Chief Finance Officer, who is the Director of Corporate Resources, is set out in the Constitution.

The Annual Governance Statement, which is included in this Statement of Accounts, covers more than just financial matters and is set out in full on pages 19 to 20, complemented by the Statement Reporting Reviews of Financial Controls on page 21.

Through the Council Plan and Reconciling Policy and Resources Process the Council takes a long term view of its strategic aims, priorities for improvement, service targets, and the allocations of resources to meet targets. This approach has helped bring about a number of improvements in our financial management:

- There is a close connection between the determination of service delivery priorities, as identified within our corporate aims and priorities for improvement, and our budget setting.
- Budgeting is more strategically focused.
- Changes in service delivery can be planned over a longer period.
- The focus is on medium term changes.
- It allows integration of revenue and capital planning.
- Consultation processes are more meaningful.

Our financial framework relies upon the quality of the financial systems of the Council. There is a commitment continually to improve systems to ensure that budget holders receive information in the form and at the time they require and that key financial processes are managed efficiently and economically.

The Audit Opinion

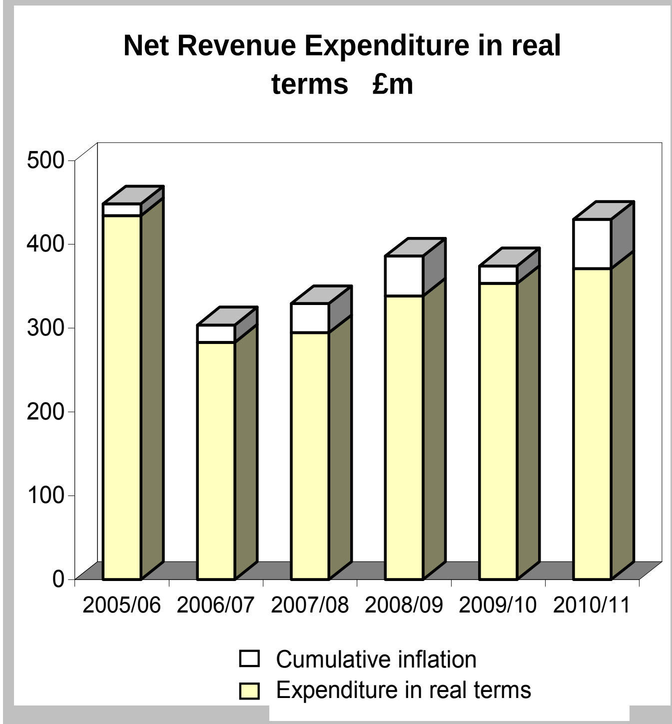
The 2010/11 Audit Opinion and Certificate is available on pages 16 to 18.

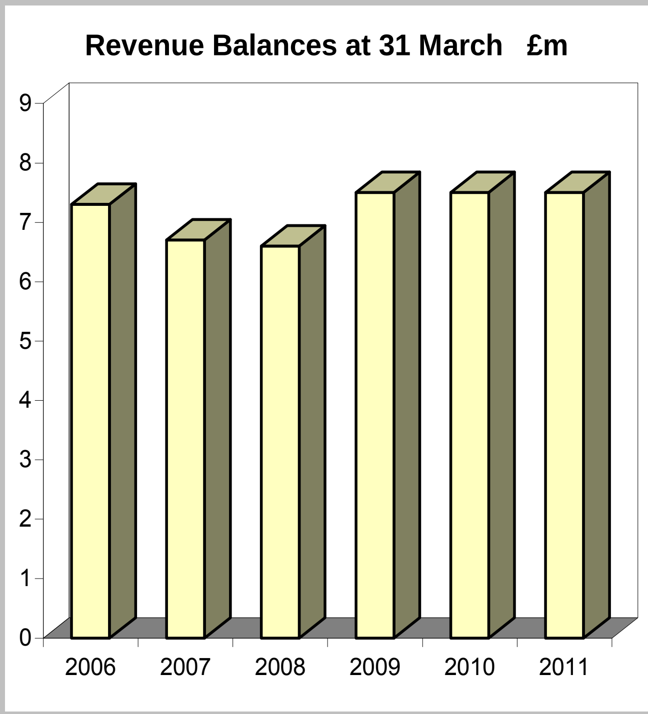
Sean Nolan

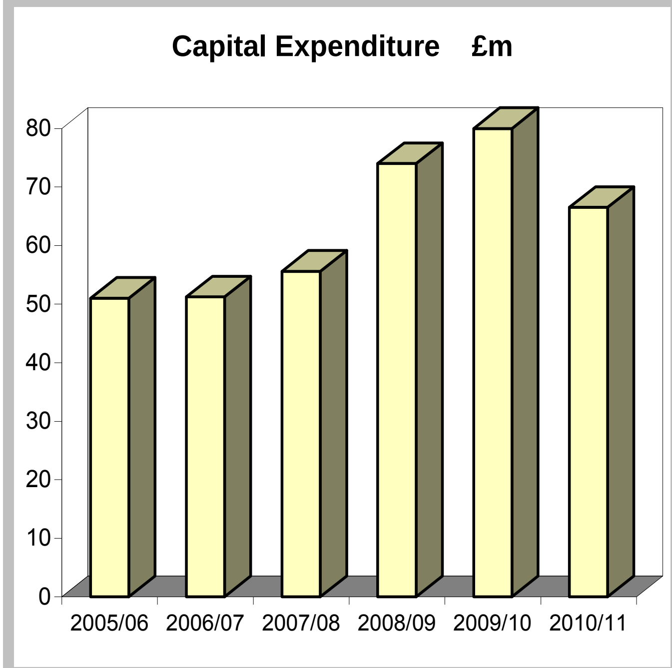
Director of Corporate Resources

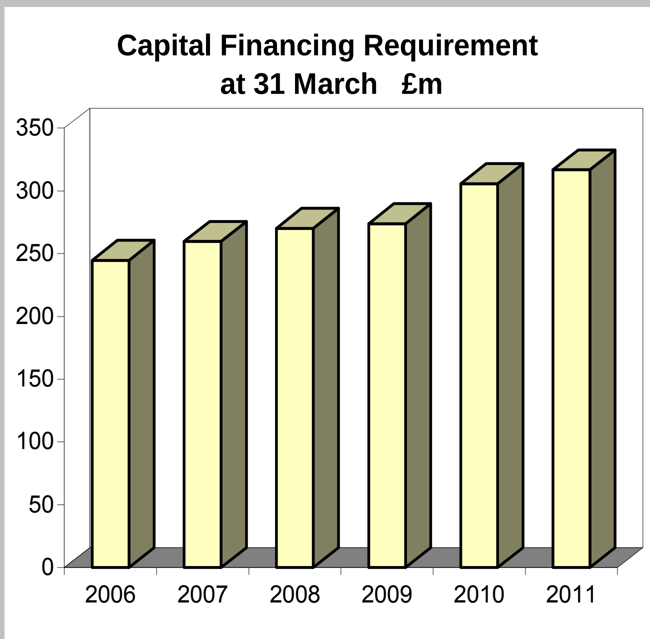
8 September 2011

Trends


Net Revenue Expenditure in real terms £m
500
400
300
200
100
0
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
Cumulative inflation
Expenditure in real terms


Revenue Balances at 31 March £m
9
8
7
6
5
4
3
2
1
0
2006
2007
2008
2009
2010
2011


Capital Expenditure £m
80
70
60
50
40
30
20
10
0
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11


Capital Financing Requirement at 31 March £m
350
300
250
200
150
100
50
0
2006
2007
2008
2009
2010
2011

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 ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the 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, which include the accounting statements for East Sussex Pension Fund.

The Responsibilities of the Director of Corporate Resources

The 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 provide a true and fair view of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this Statement of Accounts the 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 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

Director of Corporate Resources
8 September 2011

Independent Auditor's Report to the Members of East Sussex County Council

Opinion on the Council's accounting statements

We have audited the accounting statements of East Sussex County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the County Fund Balance Sheet, the Cash Flow Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of East Sussex County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

....
Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK

8 September 2011

Opinion on the East Sussex Pension Fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. We read all the information in the Foreword by the Director of Corporate Resources within the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Corporate Resources within the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

....
Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK

8 September 2011

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

Council's responsibilities

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, East Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Signature:

....
Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK

8 September 2011

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 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 2011 for reviewing its system of internal control.

2. Purpose of the governance framework

Good governance is about how the 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 Council is directed and controlled. Through effective governance the 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 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 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 2011 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 Best Value and Community Services Scrutiny Committee, Scrutiny Committees generally and the full Council;
- the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
- the work of the 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 annual letter and annual governance report;
- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman, the Standards Board for England, the Care Quality Commission and the Office for Standards in Education

4. Key elements of the governance and internal control environments

The key elements that comprise the 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 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 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 did not identify any gaps in assurance over key risks or significant governance issues. However, since the review was completed the Care Quality Commission (CQC) has inspected one of the County Council operated care homes (Mount Denys) and has identified significant concerns with the care arrangements in place. As a result the Council has been served with warning notices, highlighting four areas for immediate action. One of these areas related to concerns that internal quality assurance processes did not identify the significance of the issues prior to the inspection. Immediate action has been taken to address the issues highlighted and a longer term plan is being developed to incorporate the valuable and important lessons learnt from this inspection and address all of the identified issues in a sustainable way, including the enhancement of the current internal quality monitoring framework to ensure that in future, there is early identification and resolution of any potential concerns

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

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. In addition to the actions identified in relation to the Mount Denys inspection detailed above, the Council has identified a number of areas where it wishes to enhance its governance arrangements, as follows:

- To review the Corporate Governance Framework to ensure that it remains up to date and reflects best practice;
- To ensure appropriate governance arrangements are in place in relation to partnership working under the South East Seven Partnership and the Local Enterprise Partnership
- To approve and implement a corporate information security policy and to complete the roll out of encryption software and end point control
- To implement a revised Employee Code of Conduct for all Council staff
- To update the scheme of delegation to reflect changes in structure and responsibility
- To consider the impacts of the Localism Bill including the implementation of a revised standards regime for councillors
- To consider response to the Government's consultation regarding the future of Public Audit and any future implications for the Council.
- *To ensure smooth transition in relation to the changes to health required by the Health and Social Care Bill*
- *To ensure a successful transition in relation to the change in responsibility for public health*
- *To support arrangements for the establishment of GP consortia in 2012-13*
- *To monitor arrangements in relation to the customer focus change programme in order to deliver the objectives in relation to customer focus and the access strategy*
- *To ensure governance arrangements are in place in relation to the service review programme to ensure that the Council achieves its objectives and to monitor the impact of the reviews*

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

(NB actions in italics will be monitored through the Council's Business Plan with all other actions being monitored via the AGS action plan and Corporate Governance Group)

Cllr Peter Jones
Leader and Chairman of the Governance Committee
8 September 2011

Becky Shaw,
Chief Executive
8 September 2011

Statement Reporting Reviews of Internal Financial Controls for the year ended 31 March 2011

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 2011 for ensuring that there are adequate and effective arrangements for financial management and that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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

- the work of managers within the Council;
- the work of the Finance and Resources Group (FRG);
- the work of the internal audit service; and
- the external auditors in their Annual Governance Report and other reports.

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 and processes that are compliant with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code on a Prudential Framework for Local Authority Capital Finance;
- clearly defined responsibilities for budget and financial management;
- robust and appropriate treasury management arrangements which are regularly reviewed and are compliant with CIPFA's revised Treasury Management Code;
- head of profession links between the Director of Corporate Resources, as designated Treasurer for the Council, and departmental finance teams;
- financial management structures, which promote ownership of financial issues within service departments and the, use of formal project management disciplines for major projects; and
- a clear Anti-Fraud and Corruption Policy.

I am also satisfied that my role and the Authority's financial management arrangements generally are compliant with CIPFA's Statement on the Role of the Chief Financial Officer in Public Service Organisations.

In carrying out my responsibility for establishing sound financial management arrangements I have relied primarily on my head of profession links with the Finance and Resources Group and the systems and processes outlined above. I have also placed reliance on the 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 Council's system of internal financial control. All key financial systems have been assessed as substantial or full assurance in terms of their controls. However, areas for improvement have been identified in relation to financial controls operated within some establishments in the Children's Services Directorate and I am satisfied that appropriate action is being taken to address these. In my opinion the Council has in place a satisfactory framework of internal financial control. There are no significant weaknesses, however the Council continues to face a number of challenges going forward (these are summarised at a strategic level in the Council's Strategic Risk Log) and will need to keep its system of internal financial control under review.

We know the financial outlook for public spending over the medium term will be the most challenging for decades. While the budget for 2011/12 has been set with a degree of certainty, the savings required in year will be very challenging and careful monitoring is required. For the medium term, it will be vital to put in place robust planning frameworks for 2012 onwards as soon as possible. All this is on top of 'normal' risks associated with particularly volatile and high value social care budgets which if anything are coming under increasing pressure. The need for careful monitoring also extends to the short and medium term threat to capital funding.

Continuing action will be taken to promote excellence in financial management across the Council. Again 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 2011/12. I remain satisfied, however, that all reasonable measures to control risk are being taken.

Sean Nolan – Director of Corporate Resources

8 September 2011

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	County Fund Balance Restated	Schools Balance	Capital Receipts Reserve	Earmarked reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves Restated	Total Council Reserves Restated
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009 (Note 25 and 26)	**7,475**	**10,391**	**4,827**	**160,565**	**-**	**183,258**	**201,439**	**384,697**
Movement in reserves during 2009/10								
Surplus or (deficit) on the provision of services	13,761	-	-	-	-	13,761	(125)	13,636
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(224,292)	(224,292)
Total Comprehensive Income and Expenditure	**13,761**	**-**	**-**	**-**	**-**	**13,761**	**(224,417)**	**(210,656)**
Adjustments between accounting basis & funding basis under regulations (Note 9)	(9,769)	-	(609)	-	-	(10,378)	10,378	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**3,992**	**-**	**(609)**	**-**	**-**	**3,383**	**(214,039)**	**(210,656)**
Transfers to/from Earmarked Reserves (Note 10)	(3,927)	1,362	-	2,565	-	-	-	-
Increase/Decrease in 2009/10	**65**	**1,362**	**(609)**	**2,565**	**-**	**3,383**	**(214,039)**	**(210,656)**
Balance at 31 March 2010 (Note 25 and 26)	**7,540**	**11,753**	**4,218**	**163,130**	**-**	**186,641**	**(12,600)**	**174,041**

Movement in Reserves Statement

	County Fund Balance	Schools Balance	Capital Receipts Reserve	Earmarked reserves - General	Earmarked reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2010 carried forward (Note 25 and 26)	**7,540**	**11,753**	**4,218**	**163,130**	**-**	**186,641**	**(12,600)**	**174,041**
Movement in Reserves during 2010/11								
Surplus or (deficit) on provision of services	106,020	-	-	-	-	106,020	-	106,020
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	265,904	265,904
Total Comprehensive Income and Expenditure	**106,020**	**-**	**-**	**-**	**-**	**106,020**	**265,904**	**371,924**
Adjustments between accounting basis & funding basis under regulations (Note 9)	(82,310)	-	2,154	-	-	(80,156)	80,156	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**23,710**	**-**	**2,154**	**-**	**-**	**25,864**	**346,060**	**371,924**
Transfers to/from Earmarked Reserves (Note 10)	(23,710)	1,765	-	16,340	5,605	-	-	-
Increase/Decrease in Year	**-**	**1,765**	**2,154**	**16,340**	**5,605**	**25,864**	**346,060**	**371,924**
Balance at 31 March 2011 (Note 25 and 26)	**7,540**	**13,518**	**6,372**	**179,470**	**5,605**	**212,505**	**333,460**	**545,965**

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the County Council's actual financial performance for the year in accordance with proper accounting practices. It summarises the resources that have been generated and consumed in providing the functions for which the County Council is responsible, and demonstrates how the cost has been financed from general government grants and income from local taxpayers. The taxation position is shown in the Movement in Reserves Statement.

	2009/10 Restated				2010/11	
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
486,204	(378,114)	108,090	Education and children's services	534,592	(416,480)	118,112
231,907	(69,824)	162,083	Adult social care	240,536	(62,810)	177,726
48,825	(9,797)	39,028	Highways and transport services	49,871	(8,691)	41,180
353	(168)	185	Housing services	493	(208)	285
87,318	(54,483)	32,835	Cultural, environmental, regulatory and planning services	63,274	(28,848)	34,426
			Central services:			
5,004	(1,905)	3,099	Central services to the public	4,018	(1,534)	2,484
2,292	(239)	2,053	Corporate and Democratic Core	2,541	(72)	2,469
5,959	(152)	5,807	Non Distributed Costs	-	(114,040)	(114,040)
867,862	**(514,682)**	**353,180**	**Cost of Services**	**895,325**	**(632,683)**	**262,642**
3,702	-	3,702	Other operating expenditure - Note 11	28,715	-	28,715
37,500	(2,554)	34,946	Financing and investment income and expenditure - Note 12	28,487	(2,858)	25,629
-	-	-	Profit or loss on discontinued operations	-	-	-
-	(405,589)	(405,589)	Taxation and non-specific grant income - Note 13	-	(423,006)	(423,006)
		(13,761)	**(Surplus) or Deficit on Provision of Services**			**(106,020)**
		(20,492)	Surplus or deficit on revaluation of non-current assets – Note 14			(80,042)
		-	Surplus or deficit on revaluation of available for sale financial assets			-
		244,909	Actuarial gains/losses on pension assets / liabilities – Note 45			(185,862)
		224,417	**Other Comprehensive Income and Expenditure**			**(259,904)**
		210,656	**Total Comprehensive Income and Expenditure**			**(371,924)**

County Fund Balance Sheet

The County Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

1 April 2009 Restated	31 March 2010 Restated			31 March 2011
£000	£000		Notes	£000
780,196	843,562	Property, Plant & Equipment	14	902,932
2,096	936	Investment Property	15	1,508
4,642	4,426	Intangible Assets	16	3,341
1	1	Long Term Investments	17	1
28,175	25,962	Long Term Debtors	20	31,729
815,110	**874,887**	**Long Term Assets**		**939,511**
203,065	168,051	Short Term Investments	17	179,603
-	-	Assets Held for Sale	22	1,950
4,337	4,174	Payments in Advance		4,417
231	1,628	Landfill Allowances	54	961
75	72	Inventories	18	136
28,317	30,788	Short Term Debtors	20	26,093
38,179	41,151	Cash and Cash Equivalents	21	42,695
274,204	**245,864**	**Current Assets**		**255,855**
(14,220)	(16,234)	Income in Advance		(14,705)
(1,420)	(1,348)	Short Term Borrowing		(1,304)
(11,550)	(8,669)	Accrued balance at bank and for third parties	21	(11,743)
(865)	(831)	Provisions	24	(653)
(79,497)	(85,953)	Short Term Creditors	23	(81,882)
(107,552)	**(113,035)**	**Current Liabilities**		**(110,287)**
(262,593)	(515,937)	Liabilities related to defined benefit pension schemes	45	(227,865)
(4,891)	(4,891)	Provisions	24	(5,601)
(264,224)	(241,262)	Long Term Borrowing	17	(241,262)
(38,432)	(36,556)	Capital Grants & Contributions Receipts in Advance	37	(32,085)
-	-	Other Long Term Liabilities		-
(26,925)	(35,029)	Deferred Liabilities		(32,301)
(597,065)	**(833,675)**	**Long Term Liabilities**		**(539,114)**
384,697	**174,041**	**Net Assets**		**545,965**
183,258	186,641	Usable Reserves	25	212,505
201,439	(12,600)	Unusable Reserves	26	333,460
384,697	**174,041**	**Total Reserves**		**545,965**

I certify that this Statement of Accounts provides a true and fair view of the financial position of the County Council as at 31 March 2011 and its Comprehensive Income and Expenditure Statement for the year then ended.

Sean Nolan,
Director of Corporate Resources, 8 September 2011

The Governance Committee approved the Statement of Accounts on 8 September 2011

Cash Flow Statement

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

2009/10 Restated £000		2010/11 £000
(13,761)	Net (surplus) on the provision of services	(106,283)
(11,425)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	64,474
(12,412)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(13,599)
(37,598)	Net cash flows from Operating Activities (Note 27)	(55,408)
7,640	Investing Activities (Note 28)	55,498
24,105	Financing Activities (Note 29)	1,440
(5,853)	Net (increase) or decrease in cash and cash equivalents (Note 21)	1,530
(26,629)	Cash and cash equivalents at the beginning of the reporting period (Note 21)	(32,482)
(32,482)	**Cash and cash equivalents at the end of the reporting period (Note 21)**	**(30,952)**

1. ACCOUNTING POLICIES

Authorisation of Statement of Accounts - These accounts were authorised for issue by Sean Nolan, Director of Corporate Resources, and the Statement of Accounts (approved on 8 September 2011) is published with an audit opinion.

i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provides legally binding guidance on Local Authority Accounting. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS), statutory guidance issued under section 12 of the 2003 Act, and Accounts and Audit (England) Regulations 2011, Statutory Instruments No 817. The accounting convention adopted for the Council's Accounting Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council regularly reviews its accounting policies to ensure that they remain the most appropriate, giving due weight to the impact that a change in accounting policy would have on comparability between periods. In accordance with the Code, the Council has disclosed the expected impact of new accounting standards that have been issued but not yet adopted.

The accounts of the Pension Fund are also prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance for pension funds.

ii. Accruals of Income and Expenditure

The accounts of the Council are prepared on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. 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.

iv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits held by the Council as part of its normal cash management including all deposit accounts with financial institutions repayable without penalty on notice of not more than 24 hours. Cash Equivalents are generally defined as short-term, highly liquid investments that are readily convertible to cash. They are held for short term cash flow requirements rather than for investment gain and have an insignificant risk of a change in their value.

The Council defines cash equivalents as any investment that could be recalled the same day without penalty and includes call accounts, money market funds and instant deposits. However the Council uses these products for both short term cash flow requirements and investment gain purposes. The Council therefore defines only its call account with its own banker (NatWest) as a cash equivalent used for short term cash flow requirements. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Short Term Investments - Short Term Investments are those investments that are not classified as a cash equivalent as they are held for investment gain purposes. The Council's annual Treasury Management Strategy sets out the type of investments that meet its security, liquidity and yield criteria.

v. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

vi. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

2010/11 is the first year that Local Authorities' accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, supported by International Financial Reporting Standards (IFRS). Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vii. Charges to Revenue and Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Property, Plant and Equipment assets during the year:

- Depreciation is provided for on all assets used by the relevant service 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.

- Revaluation and impairment losses on tangible Property, Plant and Equipment assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii. Employee Benefits

Employee benefits are accounted for in accordance with the Code's interpretation of IAS 19 – Employee Benefits. This standard covers both benefits payable during and after employment.

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the County Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

The Council contributes to two different pension schemes that meet the needs of different groups of employees. The schemes are:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The Local Government Pension Scheme.

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

Teachers' Pensions

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

Local Government Pensions Scheme

Most other employees can join the Local Government Pension Scheme. The Council administers 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 IAS 19/IAS 26, the liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

In assessing liabilities for retirement benefits at 31 March 2010, the actuary assumed a discount rate of 1.6% real (5.5% 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 2011, the actuary has advised that a rate of 2.6% real (5.5% nominal) is appropriate.

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

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

The change in the net pension's liability is analysed into seven components:

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits - The 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.

ix. Events After the Balance Sheet Date

The accounts have taken into consideration any material event after the balance sheet, which are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period for which the Council shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);
- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

- *Modification* - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- *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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement on the County Fund Balance, after debits and credits have been made to the to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

Financial Assets

Loans and Receivables - assets that have fixed or determinable payments but are not quoted in an active market. Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Where the Council entered into financial guarantees that are not required to be accounted for as financial instruments, these guarantees will be reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

xi. Foreign Currency Transaction

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Government grants and third party contributions and donations to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied or there is reasonable assurance that they will be met. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant - Area Based Grant (ABG) is a general grant allocated by Central Government directly to Local Authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve. 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.

xiv. Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, which would require it to prepare group accounts alongside its own financial statements.

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

We show the investments held by the Pension Fund at the market (bid) quoted price. The sources of valuations 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.

xv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the latest invoice price.

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

xvi. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of Property, Plant or Equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xviii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases - Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability, and;
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the County Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

The Council as Lessor

Finance Leases - Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and;
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the County Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the County Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the County Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases - Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Cost of Services.

xx. Property, Plant and Equipments

Assets that have physical substance and are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

We record as capital expenditure all transactions that involve the purchase of new Property, Plant and Equipment or 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 DfE Conditions of Grant is all treated as capital expenditure in the accounts with no lower limit.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value (EUV);
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum 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 Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Componentisation Policy –

IAS 16 contains the accounting requirements for the separate recognition, depreciation, and derecognition of parts of assets. The Council ensures that the overall value of an asset is fairly apportioned over significant components that need to be accounted for separately and that their useful lives and the method of depreciation are determined on a reasonable and consistent basis. The Council's adopted componentisation policy is as follows:

- Each part of an item of Property Plant and Equipment (PP&E) with a cost that is significant in relation to the total cost of the items is depreciated separately. Where there is more than one significant part of the same asset, which has the same useful life and depreciation method, such parts are grouped in determining the depreciation charge;
- Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles of capitalising expenditure with a de-minimus level of £20,000;
- All components that have a different useful economic life from the main asset are identified separately – provided the amount is above the £20,000 de-minimus level, and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised;
- Derecognition of a component of PP&E takes place when no future economic benefits are expected from its use (i.e. its service potential is used up) and it is removed from the Balance Sheet;
- If a new roof is significant in relation to the total value of the asset, we would derecognise part of the existing NBV of the building and then recognise the new roof. It would then be depreciated (in the following year) over 30 years as per the beacon lifespan as it is a brand new component;
- For revalued assets (as part of the rolling programme), we will compare the individual valuation sheets produced by our valuers to the beacon analysis. If a particular asset conforms to the components identified in the beacon, and it is significant in relation to the total value, we will apply those percentages to the NBV. If it does not conform to the beacon, we will seek revised percentages;

- As each asset is valued as part of the rolling programme, then this componentisation policy will eventually be applied to all assets. However if there is any enhancement expenditure in the meantime then a material component could be recognised via this route;

- On componentisation, any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets and 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, community land assets, investment land, land awaiting disposal and assets under construction.

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

The life expectancies of the assets and the deprecation is calculated on the following bases:

Operational land	Not depreciated as an infinite life expectancy
Operational buildings	Individually assessed by valuers
Vehicles	Individually assessed on acquisition (usually up to 10 years)
IT equipment	Individually assessed on acquisition (usually up to 5 years)
Other plant, furniture and equipment	Individually assessed on acquisition (usually up to 20 years)
Infrastructure	40 years for new roads, otherwise 20 years
Intangible assets	Length of IT software licence agreement
Infrastructure land	Not depreciated as an infinite life expectancy
Community land	Not depreciated as an infinite life expectancy
Investment properties	Individually assessed by valuers
Investment land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated
Buildings awaiting disposal	Individually assessed by valuers
Land awaiting disposal	Not depreciated as an infinite life expectancy

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The written-off value of disposals is not a charge against Council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xxi. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge (based on Internal Rate of Return (IRR) of 10.87% for Peacehaven Schools and 5.34% for the Joint Integrated Waste Management Service PFI Contract) on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, the profile of write-downs is calculated using the same principles as for a finance lease;
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out for the Joint Integrated Waste Management Service PFI Contract. This expenditure is recognised as revenue expenditure for Peacehaven Schools, where there are non-significant lifecycle replacements costs charged to prepayment.

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Landfill Allowance Schemes

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal County Council (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to the Department for Environment, Food, and Rural Affairs (Defra), that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiv. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, the cost of revenue expenditure funded from capital under statute is immediately charged to the revenue account for the appropriate service, and a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax. 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 Council, capital grants and on feasibility studies for schemes that may or may not take place.

In addition, the Government may direct the 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.

xxv. Value Added Tax (VAT)

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

xxvi. 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 as the interest is paid.

xxvii. Redemption of Debt

There is a legal requirement for the 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 Council in accordance with statutory guidance. The Council adopted the Asset Life Method (annuity method) as a result of any PFI assets coming on the Balance Sheet and any related Minimum Revenue Provision (MRP) will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for finance leases, MRP will also be equivalent to the "capital repayment (principal) element" of the annual rental payable under the lease agreement. This is not a cost to the Comprehensive Income & Expenditure Statement but is charged to the County Fund through the Movement in Reserve Statement.

xxviii. 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.

xxix. Carbon Reduction Commitment (CRC)

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 Council's 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.

xxx. 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.

Expenditure on voluntary aided schools assets, i.e. properties not owned by the Council, are charged to the Comprehensive Income and Expenditure Statement, and 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 Property, Plant and Equipment. 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.

xxxi. Council Tax

The council tax is collected on behalf of the Council on an agency basis by the five billing authorities in East Sussex: Eastbourne Borough Council, Hastings Borough Council, Lewes District Council, Rother District Council and Wealden District Council. From 1 April 2009, the Council as a precepting authority is required to show council tax income in the Comprehensive Income and Expenditure Statement on an accruals basis.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. From 1 April 2009, the Council is also required to recognise its share of council tax arrears, bad debt allowances, overpayments and prepayments in its Balance Sheet.

2. The impact of the adoption of International Financial Reporting Standards

The Accounting Statements for 2010/11 are the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures under SORP presented in the Statement of Accounts for 2009/10. The Council is required to account for the transition to IFRS in accordance with IFRS 1 First Time Adoption, except where interpretations or adaptations to fit the public sector are detailed in the Code. The Code requires accounting policy changes arising out of the adoption of the IFRS based Code to be accounted for retrospectively unless the Code requires an alternative treatment. The transition date to IFRS for Local Government is 1 April 2009 and the Council has prepared its opening Balance Sheet at that date. An explanation of how the transition from the previous requirements under UK GAAP to the new requirements under IFRS has affected the Council's financial position is set out in the following tables:

IFRS Balance Sheet	UK GAAP (SORP) Balance Sheet	Adj	Under UK GAAP	IFRS transition adjs	Under IFRS Code
			£000	£000	£000
Property, Plant & Equipment	Operational & Non Operational Assets	1,2	776,757	3,439	780,196
Investment Properties	Investment Properties	2	2,000	96	2,096
Intangible Assets	Intangible Assets		4,642	-	4,642
Long Term Investments	Long Term Investments		1	-	1
Long Term Debtors	Long Term Debtors		28,175	-	28,175
Long Term Assets	**Long Term Assets**		**811,575**	**3,535**	**815,110**
Short Term Investments	Short Term Investments	3	241,066	(38,001)	203,065
Assets Held for Sale	*No equivalent*		-	-	-
Payments in Advance	Payments in Advance		4,337	-	4,337
Landfill Allowances	Landfill Allowances		231	-	231
Inventories	Stocks		75	-	75
Short Term Debtors	Debtors		28,317	-	28,317
Cash and Cash Equivalents	Cash and Bank	3	178	38,001	38,179
Current Assets	**Current Assets**		**274,204**	-	**274,204**
Income in Advance	Income in Advance	4	(13,695)	(525)	(14,220)
Short Term Borrowing	Short Term Borrowing		(1,420)		(1,420)
Bank Overdrawn & Third Parties	Bank Overdrawn & Third Parties		(11,550)		(11,550)
Short Term Creditors	Creditors and liability for landfill usage	2	(70,837)	(8,660)	(79,497)
Current Liabilities	**Current Liabilities**		**(97,502)**	**(9,185)**	**(106,687)**
Pensions Liability	Pensions Liability		(262,593)	-	(262,593)
Provisions	Provisions		(5,756)	-	(5,756)
Long Term Borrowing	Long Term Borrowing		(264,224)	-	(264,224)
Capital Grants Receipts in Advance	Unapplied Grants & Contributions	4	(38,957)	525	(38,432)
Deferred Liabilities	Deferred Liabilities	2	(26,084)	(841)	(26,925)
Other Liabilities	Government Grant Deferred Account	6	(149,999)	149,999	-
Long Term Liabilities	**Long Term Liabilities**		**(747,613)**	**149,683**	**(597,930)**
Net Assets	**Net Assets**		**240,664**	**144,033**	**384,697**
Usable Reserves	Usable Capital Receipts Reserve, Earmarked Reserves, County Fund Balances, Schools Balances		183,258	-	183,258
Unusable Reserves	Revaluation Reserve, Capital Adjustment Account, Financial Instruments Adjustment Account, Collection Fund Adjustment Account, Pensions Reserve	2,5, 6	57,406	144,033	201,439
Net Worth	**Net Worth**		**240,664**	**144,033**	**384,697**

IFRS transition adjustments to the Balance Sheet at 1 April 2009	Finance Leases	Investment Property	Cash & Cash Equivalents	Revenue grants	Employee Benefits Accrual	Govt Grant & Contribiutions Deferred	Total Effect of Transition
	Adj 1	Adj 2	Adj 3	Adj 4	Adj 5	Adj 6	
	£000	£000	£000	£000	£000	£000	£000
Property, Plant & Equipment	1,381	2,058					**3,439**
Investment Properties		96					**96**
Intangible Assets							
Long Term Investments							
Long Term Debtors							
Long Term Assets	**1,381**	**2,154**	**-**	**-**	**-**	**-**	**3,535**
Short Term Investments			(38,001)				**(38,001)**
Assets Held for Sale							
Payments in Advance							
Landfill Allowances							
Inventories							
Short Term Debtors							
Cash and Cash Equivalents			38,001				**38,001**
Current Assets	**-**	-	**-**	**-**	**-**	**-**	**-**
Income in Advance				(525)			**(525)**
Short Term Borrowing							
Bank Overdrawn & Third Parties							
Short Term Creditors	(347)				(8,313)		**(8,660)**
Provisions							
Current Liabilities	**(347)**	**-**	**-**	**(525)**	**(8,313)**	**-**	**(9,185)**
Pensions Liability							
Provisions							
Long Term Borrowing							
Capital Grants Receipts in Advance				525			**525**
Deferred Liabilities	(841)						**(841)**
Other Liabilities						149,999	**149,999**
Long Term Liabilities	**(841)**			**525**		**149,999**	**149,683**
Net Assets	**193**	**2,154**	**-**	**-**	**(8,313)**	**149,999**	**144,033**
Usable Reserves	-	-	-	-	-	-	**-**
Unusable Reserves							
- Capital Adjustment Account	193	96				149,999	**150,288**
- Revaluation Reserve		2,058					**2,058**
- Accumulated Absences Account					(8,313)		**(8,313)**
Total Unusable Reserves	**193**	**2,154**			**(8,313)**	**149,999**	**144,033**
Net Worth	**193**	**2,154**			**(8,313)**	**149,999**	**144,033**

IFRS Balance Sheet at 1 April 2010	UK GAAP (SORP) Balance Sheet	Adj	Under UK GAAP	IFRS transition adjs	Under IFRS Code
			£000	£000	£000
Property, Plant & Equipment	Operational & Non Operational Assets	8,9	836,114	7,448	843,562
Investment Properties	Investment Properties	9	5,234	(4,298)	936
Intangible Assets	Intangible Assets		4,426	-	4,426
Long Term Investments	Long Term Investments		1	-	1
Long Term Debtors	Long Term Debtors		25,962	-	25,962
Long Term Assets	**Long Term Assets**		**871,737**	**3,150**	**874,887**
Short Term Investments	Short Term Investments	10	209,002	(40,951)	168,051
Assets Held for Sale	*No equivalent*		-	-	-
Payments in Advance	Payments in Advance		4,174	-	4,174
Landfill Allowances	Landfill Allowances		1,628	-	1,628
Inventories	Stocks		72	-	72
Short Term Debtors	Debtors		30,788	-	30,788
Cash and Cash Equivalents	Cash and Bank	10	200	40,951	41,151
Current Assets	**Current Assets**		**245,864**	**-**	**245,864**
Income in Advance	Income in Advance		(15,709)	(525)	(16,234)
Short Term Borrowing	Short Term Borrowing		(1,348)	--	(1,348)
Bank Overdrawn & Third Parties	Bank Overdrawn & Third Parties		(8,669)	-	(8,669)
Short Term Creditors	Creditors	8,11	(77,083)	(8,870)	(85,953)
Provisions	Provisions		-	-	-
Current Liabilities	**Current Liabilities**		**(102,809)**	**(9,395)**	**(112,204)**
Pensions Liability	Pensions Liability		(515,937)	-	(515,937)
Provisions	Provisions		(5,722)	-	(5,722)
Long Term Borrowing	Long Term Borrowing		(241,262)	-	(241,262)
Capital Grants Receipts in Advance	Unapplied Grants & Contributions		(37,081)	525	(36,556)
Deferred Liabilities	Deferred Liabilities	8	(34,418)	(611)	(35,029)
Other Liabilities	Government Grant Deferred Account	12	(180,595)	180,595	-
Long Term Liabilities	**Long Term Liabilities**		**(1,015,015)**	**180,509**	**(834,506)**
Net Assets	**Net Assets**		**(223)**	**174,264**	**174,041**
Usable Reserves	Usable Capital Receipts Reserve, Earmarked Reserves, County Fund Balances, Schools Balances		186,641	-	186,641
Unusable Reserves	Revaluation Reserve, Capital Adjustment Account, Financial Instruments Adjustment Account, Collection Fund Adjustment Account, Pensions Reserve	8,9, 11,12	(186,864)	174,264	(12,600)
Net Worth	**Net Worth**		**(223)**	**174,264**	**174,041**

IFRS transition adjustments to the Balance Sheet at 1 April 2010	Total Adjustments as at 1 April 2009	Finance Leases	Investment Property	Cash & Cash Equivalents	Employee Benefits Accrual	Govt Grant & Contributions Deferred	Total Effect of Transition
	Adj 1-7	Adj 8	Adj 9	Adj 10	Adj 11	Adj 12	
	£000	£000	£000	£000	£000	£000	£000
Property, Plant & Equipment	3,439	(260)	4,269				**7,448**
Investment Properties	96		(4,394)				**(4,298)**
Intangible Assets							
Long Term Investments							
Long Term Debtors							
Long Term Assets	**3,535**	**(260)**	**(125)**	**-**	**-**	**-**	**3,150**
Short Term Investments	(38,001)			(2,950)			**(40,951)**
Assets Held for Sale							
Payments in Advance							
Landfill Allowances							
Inventories							
Short Term Debtors							
Cash and Cash Equivalents	38,001			2,950			**40,951**
Current Assets	**-**	**-**	-	**-**	**-**	**-**	**-**
Income in Advance	(525)						**(525)**
Short Term Borrowing							
Bank Overdrawn & Third Parties							
Short Term Creditors	(8,660)	117			(327)		**(8,870)**
Provisions							
Current Liabilities	**(9,185)**	**117**	**-**	**-**	**(327)**	**-**	**(9,395)**
Pensions Liability							
Provisions							
Long Term Borrowing							
Capital Grants Receipts in Advance	525						**525**
Deferred Liabilities	(841)	230					**(611)**
Other Liabilities	149,999					30,596	**180,595**
Long Term Liabilities	**149,683**	**230**	**-**	**-**	**-**	**30,596**	**180,509**
Net Assets	**144,033**	**87**	**(125)**	**-**	**(327)**	**30,596**	**174,264**
Usable Reserves							
Unusable Reserves	-	-	-	-	-	-	**-**
- Capital Adjustment Account	150,288	87				30,596	**180,971**
- Revaluation Reserve	2,058		(125)				**1,933**
- Accumulated Absences Account	(8,313)				(327)		**(8,640)**
Total Unusable Reserves	**144,033**	**87**	**(125)**		**(327)**	**30,596**	**174,264**
Net Worth	**144,033**	**87**	**(125)**		**(327)**	**30,596**	**174,264**

Effect of IFRS on ESCC Comprehensive Income and Expenditure Statement

For the year ended 31 March 2010

	Under UK GAAP (SORP)	Transition to IFRS Effect	Under IFRS (Code)
Net expenditure of continuing operations	£000	£000	£000
Education and children's services	87,647	20,443	108,090
Adult social care	161,683	400	162,083
Highways and transport services	37,595	1,433	39,028
Other housing services	177	8	185
Cultural, environmental, regulatory and planning services	32,814	21	32,835
Central services:			
Central services to the public	2,259	3	2,262
Corporate and Democratic Core	2,053	-	2,053
Non Distributed Costs	5,807	-	5,807
Court Services	837	-	837
Cost of Services	**330,872**	**22,308**	**353,180**
Other operating expenditure	-	3,702	3,702
Financing and investment income and expenditure	38,648	(3,702)	34,946
Surplus or deficit of discontinued operations	-	-	-
Taxation and non-specific grant income	(352,925)	(52,664)	(405,589)
(Surplus) or Deficit on Provision of Services	**16,595**	**(30,356)**	**(13,761)**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(20,617)	125	(20,492)
Surplus or deficit on revaluation of available for sale financial assets	-	-	-
Actuarial gains/losses on pension assets / liabilities	244,909	-	244,909
Other Comprehensive Income and Expenditure	224,292	125	224,417
Total Comprehensive Income and Expenditure	**240,887**	**(30,231)**	**210,656**

Analysis of the Effect of Transition to IFRS on ESCC Comprehensive Income and Expenditure Statement

	Revaluation losses	Lewes and Eastbourne Parking - MRP	Lewes and Eastbourne Parking – Interest	IAS 19 – Untaken A/L (09/10 Charge)	Capital Grants & Cont.	Changes due to IFRS
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Education and children's services	-	-	-	(328)	(20,115)	(20,443)
Adult social care	-	-	-	9	(409)	(400)
Highways and transport services	-	195	(96)	(4)	(1,528)	(1,433)
Other housing services	-	-	-	(1)	(7)	(8)
Cultural, environmental, regulatory and planning services	-	152	(164)	-	(9)	(21)
Central services:						
Central services to the public	-	-	-	(3)	-	(3)
Corporate and Democratic Core	-	-	-	-	-	-
Non Distributed Costs	-	-	-	-	-	-
Court Services	-	-	-	-	-	-
Cost of Services	**-**	**347**	**(260)**	**(327)**	**(22,068)**	**(22,308)**
Recognised capital grants and contributions	**-**	**-**	**-**	**-**	**52,664**	**52,664**
Surplus or deficit on revaluation of Property, Plant and Equipment assets	**(125)**	**-**	**-**	**-**	**-**	**(125)**
Total Comprehensive Income and Expenditure	**(125)**	**347**	**(260)**	**(327)**	**30,596**	**30,231**

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

a. Short -Term Accumulating Compensated Absences:

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean Local Authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet	**2009/10 Statements £000**	**Adjustments Made £000**
Accruals	8,313	-
Accumulated Absences Account	-	(8,313)

31 March 2010 Balance Sheet	**2009/10 Statements £000**	**Adjustments Made £000**
Accruals	8,640	327
Accumulated Absences Account	-	(8,640)

2009/10 Comprehensive Income and Expenditure Statement – Cost of Services (Net)	**2009/10 Statements £000**	**Adjustments Made £000**
Education and Children's Services	8,147	(7,816)
Adult Social Care Services	292	(301)
Highways & Transport Services	81	(77)
Cultural, Environmental & Planning Services	120	(119)

Short Term Accumulating Compensated Absences - Accruing for short-term accumulating compensated absences has resulted in decreases of net assets in the balance sheet as at 1st April 2009 and as at 31st March 2010 of £8.31m and £8.64m respectively; being increases in accruals, with corresponding decreases in the year end balance on the Accumulated Absences Account (an unusable reserve). The impact on the Comprehensive Income and Expenditure Statement is an increase in expenditure of £327,000 in 2009/10, reflecting the movement in the accrual.

b. Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Council has restated four assets, previously classed as operating leases, as finance leases. The assets are on-street parking machines in Lewes and Eastbourne, a print room copier and an ICT storage network. The assets under these leases are carried as Property, Plant, and Equipment in the Balance Sheet.

As a consequence of classifying the asset as a finance lease, the financial statements have been amended as follows:

- The Council has recognised an asset and a finance lease liability.
- The operating lease charge within Economy, Transport, and Environment Services has been reduced by the amount that relates to the interest element of the lease payments.
- A depreciation charge has been included within Economy, Transport, and Environment Services.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account, and the General Fund has been charged with the Minimum Revenue Provision (with the credit being made to the Capital Adjustment Account). These transfers are reflected in the balance sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.
- The interest element of the lease payment is charged to the Financing and Investment income and expenditure line in Surplus or Deficit on the Provision of Services.

c. Government Grants

Under the Code, grants and contributions are recognised as income when they become receivable. This means that unless there are unfulfilled conditions attached to the grants they are to be recognised as income in the Comprehensive Income and Expenditure Statement. Previously, grants were held as Receipts in Advance on the Balance Sheet and only credited to the Comprehensive Income and Expenditure Statement when used, or for capital grants over the life of the assets, which they were used to fund. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- A grant was received in 2009/10 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the Liabilities section of the Balance Sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

3. First time adoption of International Financial Reporting Standards (IFRS 1)

IFRS 1 requires that where an entity adopted IFRS for the first time, comparative amounts should be restated to reflect the new accounting policies, and that the date of transition to IFRS is the beginning of the earliest comparative year reported in the financial statements. For Local Authorities applying IFRS from 2010/11 using the CIPFA Code, this means that the effective date of transition to IFRS is 1 April 2009. The IFRS also requires that accounting policies are applied retrospectively i.e. as if the transactions had always been accounted for under the new policy. The Standard as adopted by the CIPFA Code does however provide some optional exemptions from this requirement.

4. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of Heritage Assets (FRS 30) held by the Council, which will need to be adopted fully by the Council in the 2011/12 financial statements. The new standard will require that a new class of asset, Heritage Assets, is disclosed separately on the face of the Council's Balance Sheet in the 2011/12 financial statements. Heritage Assets are assets that are held by the Council principally for their contribution to knowledge or culture.

Other expected accounting policy changes include -

- CIPFA Statement on the Role of the Chief Financial Officer
- Minor amendments to accounting standards
- Carbon Reduction Commitment Scheme
- Community Infrastructure Levy (CIL) - Replace s106 and s278 payments
- Business Rates Supplement (BRS)
- Remuneration Reporting - LAAP 85, Exit Packages
- Financial instrument disclosures - Leases, PFI, Soft loans
- Transport Infrastructure Assets Code.

5. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has developed certain criteria based on IAS 16 in making judgements about whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purposes (i.e., Sackville House Lewes). If these portions could be sold separately (or leased out separately under a finance lease), the Council would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.
- Recognition of Government Grants and Contributions - Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received. Council has made a judgement about complex grants/contributions, it is considered that grants have conditions attached where the Council intends to spend the grant but failure to spend the grant is likely to result in renegotiation of the contract/project, which could lead to potential repayment of unspent monies. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
- 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 accounting guidance. Following internal review, it was considered that the rewards and risk of ownership of VA schools asset lie more with the diocese than the Council; that the rights to economic benefits and the rights to control these VA schools assets were not with the Council and hence these assets should not be on the Council's balance sheet. The value of VA Schools assets totalling some £39.68m were removed from the Balance Sheet. Some land (school playing fields) belongs to the Council and hence remains on the Balance Sheet.

6. Assumptions made about the future and other major sources of estimation uncertainty

Preparing financial statements to conform with International Financial Reporting Standards (IFRS) as adopted by CIPFA Code requires management to make judgements, estimates and assumptions about the future or events that are otherwise uncertain, which affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This means that the Council is required to make estimates and assumptions. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or in future periods if it also affects future periods.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Depreciation of Property, Plant and Equipment - The Council estimates the useful lives of Property, Plant and Equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of Property, Plant and Equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of Property, Plant, and Equipment is based on external technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Property, Plant and Equipment would increase recorded expenses and decrease non-current assets.
- Impairment/reversal of impairment - The Council has significant investments in Property, Plant and Equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, thus requiring the book value to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future use. Assets/properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least annually.

- Allowance for doubtful debts - The Council makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.

- Creditors - These are calculated using actual data where available, such as value of outstanding invoices, rent demands etc. For other instances where such 'actual' data does not exist an estimate of the outstanding liability is made by an appropriate officer using the best information available.

- The Council is exposed to a number of underlying economic factors, such as interest rates and financial instruments with fair values derived from changes in these factors, which affect the overall results.

- Pension Liability – The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the Balance Sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuaries make a number of critical assumptions affecting these estimates. Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, life expectancy, and the annual rate of compensation increase, which have a direct and potentially material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the financial statements. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that the net pension's liability had reduced by £281.5m. The key assumptions made are set out in Note 45.

- Provisions - The recognition of provisions involves assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits. To the extent that an outflow of resources embodying economic benefits is probable and a reliable estimate can be mad, a provision is recognised.

- Insurance Provision - This estimate of the potential liability is provided by a qualified professional actuary based on outstanding claims already submitted and an estimate of potential claims that have yet to be made. An increase over the forthcoming year in either the total number of claims or the estimated average settlement would each have an effect on the provision needed.

- Contingent liabilities - The Council has had to make an informed estimate of the likely liability the Council could face if certain events happened in the future. These estimates have been made by an appropriate officer or qualified specialist where appropriate.

7. Material items of income and expenses

The new Bexhill High School opened its doors to pupils and began teaching in the new facilities on Monday 8 November 2010 after two years of building. In compliance with the Code, the Council valuer was requested to carry out an additional valuation, which is 'off programme', to assess whether in-year capital expenditure on Bexhill High School has materially affected the asset valuations. The outcome of the exercise resulted in a downward valuation of these facilities in the region of £15.1m, which was charged to the Comprehensive Income and Expenditure Statement.

8. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 1 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provide information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have been adjusted for the following events, which took place after 31 March 2011 as they provide information that is relevant to an understanding of the Council's financial position. The Council received this information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period:

- The Council's actuaries (Hymans Robertson LLP) carried out an additional review after the end of the 2010/11 accounting year to identify exactly how the responsibilities for historic unfunded pension benefits are split between East Sussex County Council and Brighton & Hove City Council. The result of this work is that East Sussex County Council's responsibility for unfunded pensions has reduced from £5.4m per annum to £4.9m per annum. The impact of this review on the 2010/11 IAS19 disclosures are:

  - The balance sheet net liability at 31 March 2011 has reduced by £6.5m from £234.4m to £227.9m;
  - The charge to the revenue account for 2010/11 has reduced by £0.3m from £68.6m to £68.3m; and
  - The actuarial gain over 2010/11 has risen by £6.8m from £179.1m to £185.9m.

- The impact of the Council's actuaries changes on 2009/10 accounts are not material to the overall financial statements, therefore, previous year account has not been amended for prior period adjustment.
- Academy Schools - East Sussex County Council's Cabinet agreed to close Filsham Valley, The Grove and Hillcrest Schools on 31 August 2011 so that they may be replaced by two academies on 1 September 2011. Under current accounting conventions, the value of their buildings will be written out of the Council's Balance Sheet at that date.
- Concessionary Travel Scheme - The Concessionary Travel Scheme is currently the responsibility of the five Borough and District councils across the county. For a number of years East Sussex County Council acted as the administrator and coordinator of the scheme on behalf of the East Sussex District & Borough councils and those in West Sussex. From 1 April 2011, responsibility for operating the Concessionary Travel Scheme transfers to the County Council. The statutory scheme offers free off-peak travel between 9:30am and 11:00pm Monday to Friday and all day at weekends and on public holidays. Those eligible for the scheme are residents of pensionable age and those with a qualifying disability.
- East Sussex County Council and Brighton & Hove City Council, as joint waste disposal authorities, have put together a 25 year waste management plan. The new household waste recycling site in Newhaven opened on Thursday 14 July for the benefit of local residents.

9. Adjustments between accounting basis and funding basis under regulations

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

2010/11	**Usable Reserves**					
	County Fund Balance	**Schools Balance**	**Capital Receipts Reserve**	**Earmarked reserves**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	63,455	-	-	-	-	(63,455)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the CIES	(2,023)	-	-	-	-	2,023
Movements in the market value of Investment Properties	(125)	-	-	-	-	125
Amortisation of intangible assets	1,317	-	-	-	-	(1,317)
Capital grants and contributions applied	(50,306)	-	-	-	-	50,306
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	5,243	-	-	-	-	(5,243)

Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	31,542	-	(1,000)	-	-	(30,542)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(15,980)	-	-	-	-	15,980
Capital expenditure charged against the General Fund.	(6,869)	-	-	-	-	6,869
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,154)	-	-	-	-	3,154
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,000	-	-	(1,000)
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,450)	-	-	-	-	1,450
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(68,352)	-	-	-	-	68,352
Employer's pensions contributions and direct payments to pensioners payable in the year	(33,858)	-	-	-	-	33,858
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,743)	-	-	-	-	1,743
Adjustment primarily involving the						

Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(7)	-	-	-	-	7
Total Adjustments	**(82,310)**	**-**	**-**	**-**	**-**	**82,310**

2009/10 Comparative Figures, restated	**Usable Reserves** County Fund Balance	**Schools Balance**	**Capital Receipts Reserve**	**Earmarked reserves**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	44,540		-	-	-	(44,540)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the CIES	-	-	-	-	-	-
Movements in the market value of Investment Properties	-	-	-	-	-	-
Amortisation of intangible assets	987	-	-	-	-	(987)
Capital grants and contributions applied	(52,664)	-	-	-	-	52,664
Movement in the Donated Assets Account	-	-	-	-	-	
Revenue expenditure funded from capital under statute	8,208	-	-	-	-	(8,208)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,650	-	(2,.000)	-	-	(2,650)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(12,915)	-	-	-	-	12,915
Capital expenditure charged against the General Fund	(10,008)	-	-	-	-	10,008
Adjustments primarily involving the Capital Grants Unapplied Account:						

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,391)	-	-	-	-	1,391
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	2,000	-	-	(2,000)
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(121)	-	-	-	-	121
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	40,963	-	-	-	-	(40,963)
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,528)	-	-	-	-	32,528
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	183	-	-	-	-	(183)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	327	-	-	-	-	(327)
Total Adjustments	**(9,769)**	**-**	**-**	**-**	**-**	**9,769**

10. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11.

	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Balances held by the Council:							
ACRES Reserve	**-**	-	375	**375**	-	-	**375**
ASC Business Transformation Risk	**617**	-	-	**617**	-	-	**617**
ASC ICT Refresh	**-**	-	-	**-**	(108)	-	**(108)**
Capital Programme	**43,725**	(5,324)	2,633	**41,034**	-	1,366	**42,400**
CBOSS Development	**594**	-	61	**655**	-	251	**906**
CGS ICT Refresh	**51**	(106)	55	**-**	-	-	**-**
Climate Change	**150**	-	-	**150**	-	-	**150**
Community Partnership	**94**	(93)	-	**1**	-	-	**1**
Corporate Waste	**60,548**	(12,970)	19,115	**66,693**	(10,634)	13,705	**69,764**
CSD ICT Refresh	**40**	-	108	**148**	(133)	130	**145**
CSD Redundancy Reserve	**-**	-	-	**-**	-	1,232	**1,232**
CSD Strategy Reserve	**-**	-	-	**-**	-	391	**391**
Deferred Payments	**405**	(315)	-	**90**	-	-	**90**
Departmental Budgets	**5,634**	(5,635)	5,163	**5,162**	(5,162)	9,034	**9,034**
Departmental Budgets – one off's	**3,173**	(3,396)	2,631	**2,408**	(2,408)	5,307	**5,307**
Developer Contribution Smoothing	**175**	(175)	-	**-**	-	175	**175**
Extended Schools (Community Facilities)	**155**	-	72	**227**	-	180	**407**
e-Government	**1,314**	(58)	552	**1,808**	(459)	1,065	**2,414**
Revenue Grants and Contributions	**-**	-	-	**-**	-	5,605	**5,605**
High Weald	**51**	-	14	**65**	-	19	**84**
Insurance (from 1/4/97)	**8,029**	(1,114)	1,391	**8,306**	(1,031)	550	**7,825**
Insurance (to 31/3/97)	**530**	(17)	481	**994**	(35)	28	**987**
Invest To Save	**2,042**	(700)	90	**1,432**	(1,078)	-	**354**
Leisure Centres	**332**	(3)	-	**329**	(20)	-	**309**
Management Capacity	**138**	(49)	40	**129**	-	-	**129**

Map Digitisation	**36**	(24)	-	**12**	(3)	-	**9**
On-street car parking	**310**	(89)	237	**458**	(5)	460	**913**
Ouse Valley Commuted Maintenance	**29**	(12)	-	**17**	-	-	**17**
Interest Rate Equalisation Reserve	**1,298**	(2,999)	1,702	**1**	-	-	**1**
PFI Assets	**4,680**	(4,680)	221	**221**	(221)	-	**-**
Recession Fund Reserve	**-**	-	894	**894**	(894)	-	**-**
Redundancies	**2,950**	(1,265)	150	**1,835**	(3,491)	3,837	**2,181**
Roundabout Reserve	**-**	-	114	**114**	(26)	32	**120**
Schools Redundancy Reserve	**-**	-	-	**-**	-	107	**107**
Skills Centre (Wd)	**-**	-	-	**-**	-	492	**492**
Strategic Economic Development	**327**	(327)	-	**-**	-	825	**825**
Transport & Environment ICT Refresh	**26**	-	32	**58**	-	-	**58**
Travellers' Sites	**160**	(34)	25	**151**	(35)	35	**151**
Virtual College	**-**	-	232	**232**	(81)	-	**151**
Winter Maintenance	**189**	-	311	**500**	-	-	**500**
Total (excl. Waste PFI)	**137,802**	**(39,385)**	**36,699**	**135,116**	**(25,824)**	**44,826**	**154,118**
Waste PFI Prepayment (as modelled)	**22,763**	-	5,251	**28,014**	(2,704)	5,647	**30,957**
Total (with Waste PFI)	**160,565**	**(39,385)**	**41,950**	**163,130**	**(28,528)**	**50,473**	**185,075**

ACRES Reserve	The ACRES (Adult College of Rural East Sussex) consortium, comprising 5 colleges and the Council's Governance and Community Services Department, provides adult learning services in East Sussex. There is no council tax support for these services. Changes in funding arrangements in the further education sector, together with managing the potential for year on year learner number and/or trading volatility make it essential that the consortium can draw on self-generated resources to meet any future investment, restructuring and other exceptional costs.
ASC Business Transformation Risk	To meet potential unplanned costs arising from the transformation of business processes within Adult Social Care.
ASC ICT Refresh	The ICT refresh reserves meet the costs of regular replacement ICT equipment on a 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.
CGS 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.
CSD Redundancy	To meet the cost of redundancy in the Children's Services Department (CSD) which are likely to arise as part of CSD service restructures in 2011/12. It covers those services where the consultation process has started but will be completed in 2011/12.
CSD Strategy Reserve	To smooth the impact and support the implementation of service restructures over 2011/12 and 2012/13.
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 receives a government grant towards the cost of deferred payments, 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.
Departmental Budgets – one off's	These represent available one off resources to meet future 2011-12 specific costs.
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.
Grant and Cont. IAS 20	These are grants and contributions that have been received with no conditions attaching to it, but yet to be applied and there are restrictions as to how the monies are to be applied. The Council has earmarked these revenue grants income until it is applied.
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 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 of the Council, and some may eventually be attributable to Brighton and Hove City Council.
Invest To Save	To provide initial funding for projects designed to save the Council money over future years.
Leisure Centres	To enable the 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 historical records available in electronic form, including through the Council's 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.
Interest Rate Equalisation Reserve	This reserve provides resources which may be used to help manage fluctuations in interest rates and the impact on our short-long term borrowing and investment.
PFI Assets	The reserve has been derecognised due to the infrastructure being recognised as an asset with the related liability. The amounts previously represent the payments made to the contractor, which relate to the asset value, which was exactly matched by the former PFI prepayment account.
Recession Fund Reserve	The Council has agreed to a one-off allocation, which can be used over several years, to support the work to address the recession and the impact it has on residents, businesses, and communities.

Redundancies	To provide funds for the one-off costs of severance pay, enabling ongoing savings and efficiencies to be made.
Roundabout Reserve	The Transport & Environment Department are commencing a "Roundabout Sponsorship" scheme. Private companies will be "sponsoring" a roundabout for a period of three years - paying over an agreed sponsorship amount. Highways will then enhance/ maintain the landscaping and environment of that roundabout for that period. There is no requirement to spend particular sponsorship money on a particular roundabout, merely for certain maintenance standards to be observed.
Schools Redundancy	The Council supports schools in the 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. Restructurings have been agreed in principle before 31 March 2011 although details of individual cases had not been finalised. Therefore, a reserve was created in the 2010/11 to cover the estimated costs flowing from the decision to proceed with the restructuring.
Skills Centre	To provide support to the Wealden Skills Centre, which offer a range of vocational courses to the whole community. The reserve will be used to pay the annual rent over the next four years.
Strategic Economic Dev.	To provide support for Council projects that promote economic development.
Transport & Environment ICT Refresh	To provide for regular replacement of ICT equipment on a 4-year rolling programme in the Transport & Environment Department.
Travellers' Sites	To provide resources for future investment in the sites managed by the Council. The reserve may be used to meet revenue costs or by way of contributions to capital expenditure.
Virtual College	The management committees of the Virtual Colleges will carry forward their balances at the end of each financial year. The reserve will hold the accumulated balances brought forward.
Winter Maintenance	To smooth the financial impact of variations between years in winter weather on road maintenance.
Waste PFI	The Waste PFI reserve represents the amount included in the unitary charge that the Council has modelled as contributing towards the development of the Energy Recovery Facility due to open in 2011. This reserve will be transferred to the Capital Adjustment Account to establish the relevant MRP as the asset comes into use and the liability is finally established.

Balances held by Schools under a scheme of delegation

Balances held by Schools	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Alfriston	**20**	-	18	**38**	(8)	-	**30**
All Saints	**8**	-	25	**33**	-	7	**40**
All Saints	**5**	-	30	**35**	-	18	**53**
All Saints & St Rich	**31**	-	1	**32**	-	26	**58**
Annecy	**(8)**	-	9	**1**	-	-	**1**
Barcombe	**13**	-	16	**29**	-	3	**32**
Battle & Langton	**(5)**	-	19	**14**	-	15	**29**
Beacon	**286**	(237)	-	**49**	-	137	**186**
Beckley	**(10)**	-	7	**(3)**	-	7	**4**
Bexhill	**845**	(118)	-	**727**	(309)	-	**418**

Blackboys	**78**	(18)	-	**60**	(35)	-	**25**
Blacklands	**(36)**	-	44	**8**	-	30	**38**
Bodiam	**175**	-	105	**280**	-	22	**302**
Bonners	**26**	(7)	-	**19**	(5)	-	**14**
Bourne	**58**	(34)	-	**24**	-	22	**46**
Brede	**(16)**	-	13	**(3)**	(16)	-	**(19)**
Broad Oak	**44**	(16)	-	**28**	(2)	-	**26**
Burwash	**91**	(32)	-	**59**	(18)	-	**41**
Buxted	**(12)**	(8)	-	**(20)**	-	11	**(9)**
Castledown	**50**	-	8	**58**	-	-	**58**
Catsfield	**2**	(1)	-	**1**	-	1	**2**
Cavendish	**877**	-	27	**904**	(533)	-	**371**
Chailey	**(241)**	-	114	**(127)**	-	170	**43**
Chantry	**33**	-	16	**49**	(2)	-	**47**
Chiddingly	**5**	-	25	**30**	(6)	-	**24**
Christ Church	**61**	(29)	-	**32**	-	9	**41**
Churchwood	**37**	-	23	**60**	(22)	-	**38**
Chyngton	**81**	-	28	**109**	-	21	**130**
Claverham	**283**	-	53	**336**	-	99	**435**
Cradle Hill	**55**	(5)	-	**50**	-	13	**63**
Cross In Hand	**(5)**	-	19	**14**	-	5	**19**
Crowhurst	**25**	-	8	**33**	-	12	**45**
Cuckmere House	**187**	(11)	-	**176**	(70)	-	**106**
Dallington	**2**	-	16	**18**	(16)	-	**2**
Danehill	**36**	-	18	**54**	(18)	-	**36**
Denton	**54**	-	28	**82**	(43)	-	**39**
Dudley	**33**	-	12	**45**	(25)	1	**21**
East Hoathly	**24**	(17)	-	**7**	(24)	-	**(17)**
Eastbourne Tech	**170**	(158)	-	**12**	(12)	-	**-**
Elphinstone	**46**	-	34	**80**	(8)	-	**72**
Etchingham	**27**	-	18	**45**	-	11	**56**
Filsham Valley	**119**	(165)	-	**(46)**	-	258	**212**
Firle	**50**	(24)	-	**26**	-	5	**31**
Five Ashes	**22**	-	4	**26**	-	18	**44**
Fletching	**61**	-	11	**72**	(18)	-	**54**
Forest Row	**(14)**	-	28	**14**	-	33	**47**
Framfield	**19**	-	21	**40**	(19)	-	**21**
Frant	**(4)**	(2)	-	**(6)**	-	10	**4**
Freda Gardham	**66**	(66)	-	**-**	-	-	**-**
G'bridge St Thomas	**36**	(15)	-	**21**	(12)	-	**9**
Glyne Gap	**12**	-	3	**15**	-	47	**62**
Grays	**10**	-	32	**42**	-	92	**134**

Grove Park	**124**	(12)	-	**112**	(23)	-	**89**
Grovelands	**57**	-	2	**59**	-	59	**118**
Guestling-Bradshaw	**18**	-	39	**57**	-	31	**88**
Hailsham	**953**	(427)	-	**526**	(58)	-	**468**
Hampden Park	**20**	-	3	**23**	(20)	-	**3**
Hamsey	**17**	-	33	**50**	-	63	**113**
Hankham	**67**	(21)	-	**46**	(21)	-	**25**
Harlands	**4**	(39)	-	**(35)**	-	53	**18**
Hawkes Farm	**64**	-	3	**67**	-	49	**116**
Hazel Court	**(3)**	-	33	**30**	-	5	**35**
Heathfield	**141**	-	49	**190**	-	205	**395**
Helenswood	**23**	(27)	-	**(4)**	(98)	-	**(102)**
Hellingly	**35**	-	18	**53**	-	1	**54**
Herne	**(5)**	(69)	-	**(74)**	-	47	**(27)**
Herstmonceux	**53**	-	13	**66**	-	20	**86**
High Hurstwood	**23**	(9)	-	**14**	(11)	-	**3**
Highfield	**(73)**	(12)	-	**(85)**	-	19	**(66)**
Hillcrest	**(19)**	(105)	-	**(124)**	-	265	**141**
Hoddern	**60**	-	1	**61**	-	16	**77**
Hollington	**(161)**	-	116	**(45)**	-	36	**(9)**
Holy Cross	**23**	(8)	-	**15**	-	15	**30**
Hurst Green	**5**	-	10	**15**	(5)	-	**10**
Icklesham	**27**	(7)	-	**20**	-	9	**29**
Iford & Kingston	**149**	(26)	-	**123**	-	9	**132**
Jarvis Brook	**32**	-	15	**47**	-	8	**55**
King Offa	**93**	(61)	-	**32**	-	66	**98**
Langney	**89**	(3)	-	**86**	(24)	-	**62**
Laughton	**19**	(8)	-	**11**	-	10	**21**
Lindfield	**30**	(10)	-	**20**	-	116	**136**
Little Common	**148**	-	185	**333**	(183)	-	**150**
Little Horsted	**11**	-	13	**24**	-	24	**48**
Little Ridge	**25**	(28)	-	**(3)**	(43)	-	**(46)**
Manor	**(2)**	-	33	**31**	-	58	**89**
Mark Cross	**23**	(2)	-	**21**	-	33	**54**
Marshlands	**64**	-	18	**82**	(10)	-	**72**
Mayfield	**(30)**	-	30	**-**	-	10	**10**
Maynards Green	**(60)**	-	11	**(49)**	-	24	**(25)**
Meeching Valley	**5**	-	44	**49**	-	64	**113**
Meridian	**146**	(8)	-	**138**	(28)	-	**110**
Mntfld & Whtlngtn	**3**	(9)	-	**(6)**	-	11	**5**
Motcombe	**23**	-	13	**36**	-	28	**64**
Netherfield	**28**	-	12	**40**	-	9	**49**

New Horizons	**134**	(68)	-	**66**	(53)	-	**13**
Newick	**42**	-	7	**49**	-	12	**61**
Ninfield	**28**	-	11	**39**	(24)	-	**15**
Northiam	**-**	(21)	-	**(21)**	-	49	**28**
Nutley	**9**	-	25	**34**	(7)	-	**27**
Oakwood	**(59)**	-	98	**39**	-	20	**59**
Ocklynge	**66**	-	15	**81**	-	38	**119**
Park Mead	**79**	-	16	**95**	(87)	-	**8**
Parkland Infant	**70**	-	87	**157**	(23)	-	**134**
Parkland Junior	**(10)**	-	5	**(5)**	-	42	**37**
Parkside	**19**	-	14	**33**	(14)	-	**19**
Pashley Down	**26**	-	9	**35**	-	17	**52**
Peacehaven	**90**	-	149	**239**	-	8	**247**
Peacehaven Inf	**37**	-	13	**50**	-	11	**61**
Peasmarsh	**20**	-	22	**42**	-	3	**45**
Pebsham	**29**	-	28	**57**	-	13	**70**
Pells	**61**	-	3	**64**	-	15	**79**
Plumpton	**33**	(12)	-	**21**	-	11	**32**
Polegate	**37**	-	40	**77**	(4)	-	**73**
Priory	**88**	-	139	**227**	-	29	**256**
Punnetts Town	**18**	(4)	-	**14**	-	1	**15**
Pvnsy & Wsthm	**4**	-	36	**40**	-	35	**75**
Ratton	**59**	-	114	**173**	(13)	-	**160**
Red Lake	**28**	-	46	**74**	-	3	**77**
Ringmer	**(52)**	-	17	**(35)**	(3)	-	**(38)**
Ringmer	**(116)**	-	192	**76**	-	32	**108**
Robertsbridge	**(2)**	(13)	-	**(15)**	-	72	**57**
Robsack Wood	**106**	(7)	-	**99**	-	58	**157**
Rocks Park	**(3)**	-	29	**26**	-	12	**38**
Rodmell	**4**	-	3	**7**	-	13	**20**
Roselands	**70**	(5)	-	**65**	-	19	**84**
Rotherfield	**61**	-	6	**67**	(3)	-	**64**
Rye	**19**	(6)	-	**13**	-	13	**26**
Sacred Heart	**(63)**	-	14	**(49)**	(4)	-	**(53)**
Salehurst	**14**	(2)	-	**12**	-	-	**12**
Sandown	**8**	-	27	**35**	-	64	**99**
Saxon Mount	**57**	-	63	**120**	(1)	-	**119**
Seaford	**(83)**	-	53	**(30)**	(29)	-	**(59)**
Seaford Head	**163**	-	29	**192**	(150)	-	**42**
Sedlescombe	**8**	-	20	**28**	(12)	-	**16**
Shinewater	**89**	-	147	**236**	(3)	-	**233**
Sidley	**38**	-	3	**41**	-	33	**74**

Silverdale	**85**	(16)	-	**69**	(12)	-	**57**
Sir Henry Fermor	**74**	-	45	**119**	-	32	**151**
South Malling	**17**	-	10	**27**	(16)	-	**11**
Southdown	**11**	-	16	**27**	(23)	-	**4**
Southover	**57**	-	8	**65**	(5)	-	**60**
St Andrew's	**2**	-	47	**49**	-	4	**53**
St Anne's	**-**	-	-	**-**	-	-	**-**
St John's	**(44)**	-	24	**(20)**	-	57	**37**
St Leonards	**40**	-	46	**86**	-	20	**106**
St Marks	**30**	-	15	**45**	(24)	-	**21**
St Mary Magdalene	**(46)**	-	60	**14**	-	26	**40**
St Mary Star of Sea	**42**	(3)	-	**39**	(11)	-	**28**
St Mary the Virgin	**17**	-	19	**36**	-	24	**60**
St Marys	**(32)**	-	27	**(5)**	(4)	-	**(9)**
St Marys	**94**	(71)	-	**23**	-	76	**99**
St Michael's	**10**	-	3	**13**	-	8	**21**
St Pancras	**36**	-	28	**64**	(42)	-	**22**
St Pauls	**74**	(80)	-	**(6)**	(32)	-	**(38)**
St Peter & St Paul	**(31)**	-	23	**(8)**	-	25	**17**
St Peters	**22**	(3)	-	**19**	-	9	**28**
St Philip's	**36**	(4)	-	**32**	(1)	-	**31**
St Richards	**519**	-	63	**582**	-	62	**644**
St T-a-B Inf	**36**	(12)	-	**24**	(1)	-	**23**
St T-a-B Jun	**88**	(50)	-	**38**	(3)	-	**35**
St. John's Meads	**(3)**	-	31	**28**	(1)	-	**27**
St. Margarets	**11**	(9)	-	**2**	-	23	**25**
St. Michaels	**18**	-	17	**35**	(7)	-	**28**
St. Thomas	**6**	-	7	**13**	-	16	**29**
Stafford	**57**	-	55	**112**	-	22	**134**
Staplecross	**5**	(11)	-	**(6)**	-	5	**(1)**
Stone Cross	**32**	-	11	**43**	(9)	-	**34**
Stonegate	**29**	(16)	-	**13**	(13)	-	**-**
Telscombe Cliffs	**63**	-	33	**96**	-	36	**132**
The Bishop Bell	**(40)**	-	34	**(6)**	-	-	**(6)**
The Causeway	**67**	(63)	-	**4**	(24)	-	**(20)**
The Grove School	**338**	(68)	-	**270**	-	8	**278**
The Haven	**189**	(92)	-	**97**	(1)	-	**96**
The South Downs	**224**	(80)	-	**144**	-	35	**179**
Thomas Peacocke	**40**	-	162	**202**	-	59	**261**
Ticehurst	**31**	(13)	-	**18**	-	23	**41**
Tideway	**673**	(199)	-	**474**	(126)	-	**348**
Tilling Green	**1**	(1)	-	**-**	-	-	**-**

Tollgate	**16**	-	21	**37**	-	11	**48**
Torfield	**78**	-	52	**130**	(128)	-	**2**
Uckfield Tech	**55**	-	93	**148**	-	251	**399**
Uplands Tech	**(43)**	-	49	**6**	-	155	**161**
Wadhurst	**47**	(41)	-	**6**	-	12	**18**
Wallands	**32**	-	81	**113**	-	46	**159**
West Rise Infant	**1**	-	10	**11**	-	3	**14**
West Rise Junior	**19**	-	11	**30**	-	5	**35**
West St.Leonards	**76**	-	-	**76**	(1)	-	**75**
Western Road	**(73)**	-	34	**(39)**	-	52	**13**
Westfield	**9**	-	11	**20**	-	2	**22**
White House	**(40)**	-	37	**(3)**	-	19	**16**
Whitehill	**2**	-	3	**5**	-	2	**7**
William Parker	**86**	(116)	-	**(30)**	(14)	-	**(44)**
Willingdon	**24**	-	26	**50**	-	38	**88**
Willingdon	**(47)**	-	68	**21**	-	160	**181**
Wivelsfield	**(16)**	-	15	**(1)**	-	23	**22**
Total	**10,391**	**(2,940)**	**4,302**	**11,753**	**(2,673)**	**4,438**	**13,518**

11. Other Operating Expenditure

	31 March 2010	31 March 2011
	£000	£000
Ashdown Forest Conservators	79	80
Sussex Sea Fisheries	236	243
Environment Agency (flood defence)	128	130
Losses on the disposal of non-current assets	3,259	28,262
Total	**3,702**	**28,715**

12. Financing and Investment Income and Expenditure

	31 March 2010	31 March 2011
	£000	£000
Interest payable and similar charges	17,705	16,282
Pensions interest cost and expected return on pensions assets	19,795	12,205
Interest receivable and similar income	(2,238)	(2,691)
Other investment income	(316)	(167)

Total	**34,946**	**25,629**

13. Taxation and Non Specific Grant Income

	31 March 2010 Restated	31 March 2011
	£000	£000
Council tax income	230,936	238,833
Non domestic rates	78,573	87,424
Revenue Support Grant - RSG	18,136	12,695
Area Based Grant – ABG	25,124	33,747
Local Authority Business Growth Incentive Grant	156	-
Capital grants and contributions	52,664	50,307
Total	**405,589**	**423,006**

14. Property, Plant and Equipment

Movements in 2010/11:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000		£000
Cost or Valuation								
At 1 April 2010 (restated)	593,822	71,886	230,444	1,625	10,315	40,557	948,649	47,549
Additions	38,994	3,582	16,684	70	-	8,406	67,736	112
Transfer of properties from PCT	7,156	-	-	-	-	-	7,156	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	53,942	13,199	-	-	(44)	-	67,097	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(29,409)	(864)	-	-	(454)	-	(30,727)	-
Derecognition – disposals	(9,979)	(222)	-	(4)	(259)	-	(10,464)	-
Derecognition – Academy & Trust Schools	(21,665)	(908)	-	-	-	-	(22,573)	-
Assets reclassified (to)/from Held for Sale	(1,274)	-	-	-	(588)	-	(1,862)	-

Assets reclassified (to)/from Investment Properties	(447)	-	-	-	-	-	(447)	
Other movements in cost or valuation – assets under construction	30,510	27	-	-	-	(30,537)	-	-
Other movements in cost or valuation – refcus	-	-	-	-	-	(487)	(487)	-
At 31 March 2011	**661,650**	**86,700**	**247,128**	**1,691**	**8,970**	**17,939**	**1,024,078**	**47,661**
Accumulated Depreciation and Impairment								
At 1 April 2010 (restated)	(16,744)	(13,901)	(73,923)	-	(519)	-	(105,087)	(1,226)
Depreciation charge	(17,406)	(7,896)	(9,792)	-	(196)	-	(35,290)	(1,359)
Depreciation written out to the Revaluation Reserve	11,423	4,125	-	-	98	-	15,646	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Impairment losses/(reversals)recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	1,764	152	-	-	126	-	2,042	-
Derecognition – disposals	557	202	-	-	14	-	773	-
Derecognition – Academy & Trust Schools	617	103	-	-	-	-	720	-
Other movements in depreciation and impairment	34	-	-	-	16	-	50	-
At 31 March 2011	**(19,755)**	**(17,215)**	**(83,715)**	**-**	**(461)**	**-**	**(121,146)**	**(2,585)**
Net Book Value								
at 31 March 2011	**641,895**	**69,485**	**163,413**	**1,691**	**8,509**	**17,939**	**902,932**	**45,076**
at 31 March 2010	**577,078**	**57,985**	**156,521**	**1,625**	**9,796**	**40,557**	**843,562**	**46,323**

Comparative Movements in 2009/10:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000		£000
Cost or Valuation								
At 1 April 2009 (restated)	575,941	66,753	211,463	1,619	11,437	12,955	880,168	34,342
Additions	34,552	5,223	18,930	6	14	32,279	90,904	13,207
Additions – Sackville House	1,035	-	-	-	-	-	1,035	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,518)	-	-	-	(2,920)	-	(4,438)	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(13,542)	-	-	-	(112)	-	(13,564)	-
Derecognition – disposals	(4,036)	(584)	-	-	(836)	-	(5,456)	-
Other movements in cost or valuation – assets under construction	1,400	494	51	-	2,732	(4,677)	-	-
At 31 March 2010	**593,822**	**71,886**	**230,444**	**1,625**	**10,315**	**40,557**	**948,649**	**47,549**
Accumulated Depreciation and Impairment								
at 1 April 2009 (restated)	(29,940)	(8,403)	(65,081)	-	(3,548)	-	(99,972)	(245)
Depreciation charge	(16,299)	(8,071)	(8,842)	-	(106)	-	(33,288)	(981)
Depreciation written out to the Revaluation Reserve	21,554	-	-	-	3,501	-	25,055	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,308	-	-	-	4	-	2,312	-
Impairment losses/(reversals)recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the	-	-	-	-	-	-	-	-

Provision of Services								
Derecognition – disposals	213	573	-	-	20	-	806	-
Other movements in depreciation and impairment	390	-	-	-	(390)	-	-	-
At 31 March 2010	**(16,744)**	**(13,901)**	**(73,923)**	**-**	**(519)**	**-**	**(105,087)**	**(1,226)**
Net Book Value								
at 31 March 2010	**577,078**	**57,985**	**156,521**	**1,625**	**9,796**	**40,557**	**843,562**	**46,323**
at 31 March 2009	**551,001**	**60,350**	**146,382**	**1,619**	**7,889**	**12,955**	**780,196**	**34,097**

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

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 Property, Plant and Equipment, with the exception of land, community assets, land awaiting disposal and assets under construction.

Capital Commitments

Over the four year period, 2011/12 to 2014/15, the Council is planning to spend gross capital expenditure of £343m. A large part of this, some £221m is planned to be funded using scheme specific resources such as government grants and contributions from external organisations.

The approved capital programme shows that in 2011/12 the Council plans to spend £156m, of which £106m is supported by scheme specific resources. Having adjusted for the actual outturn in 2010/11, slippage on projects and for provisions where there is no on-going commitment, examples of the net costs to the Council of completing some of the larger projects commitments already underway at 31 March 2011 include:

Department/Scheme	2011/12 £m	2012/13 £m	2013/14 £m	Total £m
Adult Social Care				
Warwick House	3.9	0.8	-	4.7
Governance and Community Services				
New Archive & Records Office	8.1	2.8	-	10.9

Children's Services **-** There is a political commitment to the whole Academy programme, at a net cost of £8m to the Council. However, on the 31st March 2011 there was no contractual commitment to deliver any part of this programme.

Valuation of Property, Plant and Equipment (PPE)

The Council operates a policy of revaluing its Property, Plant and Equipment on a rolling 5-year basis, with the aim of revaluing all of its assets within this period. The 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 Council 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.

With the exception of Bentley Museum contents, non-operational land and buildings are valued at the same time and in the same way as operational assets.

When the Council sold Bentley Wildfowl Centre and Motor Museum during 2004/05, it retained ownership of the contents. A valuation carried out by Sotheby's in March 2004, valued the contents at £925,000 and this amount has previously been shown in the accounts. While the Council will be commissioning a new valuation of these assets, a review of relevant documents in March 2009 has resulted in valuing the Council's share of these contents to be in the region of £645,000.

The following statement shows the progress of the Council's rolling programme for the revaluation of land and buildings. The valuations are carried out by an external firm of valuers - Wilkes, Head and Eve (a member of Chartered Surveyors and Town Planners), on behalf of the Council. The valuation dates are as at 31 March in each year.

	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Surplus Assets £000	Total £000
Valued at historical cost	534,175	51,903	7,048	593,126
Valued at fair value in:				
31 March 2011	62,666	17,323	53	80,042
31 March 2010	28,352	-	469	28,821
31 March 2009	10,835	250	842	11,927
31 March 2008	5,867	9	97	5,973
31 March 2007	-	-	-	
Total Current Value	**641,895**	**69,485**	**8,509**	**719,889**

15. Investment Properties

The Council has offices at Sackville House, Lewes, but leases out part of the building to two organisations. The lease arrangements are classified as investment properties as they are held solely to earn rental income. The following items of income have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31 March 2010 £000	31 March 2011 £000
Rental income from investment property	173	203
Total	**173**	**203**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The Council measures investment property at fair value; interpreted as the amount that would be paid for the asset in its highest and best use (i.e. market value). The Council's internal valuers have carried out investment property valuations. The following table summarises the movement in the fair value of investment properties over the year:

	31 March 2010 £000	31 March 2011 £000
Balance at start of the year	2,096	936
Additions	-	-
Net gains/losses from fair value adjustments	-	125

Transfers (to)/from Property, Plant and Equipment	(1,160)	447
Balance at end of the year	**936**	**1,508**

16. Intangible Assets

The Council accounts for its software as Intangible Assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The Intangible Assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

Useful life	**Internally Generated Assets**	**Other Assets**
2 years	None	Microsoft Enterprise Agreement Software
4 years	None	SAP Software
5 years	None	ROCS ICT - Software

The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £1.32m charged to revenue in 2010/11 was charged to the ICT – Corporate Resources cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2009/10			**2010/11**		
	Internally Generated Assets	**Other Assets**	**Total**	**Internally Generated Assets**	**Other Assets**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at start of year:						
Gross carrying amounts (restated)	-	8,203	8,203	-	8,974	8,974
Accumulated amortisation (restated)	-	(3,561)	(3,561)	-	(4,548)	(4,548)
Net carrying amount at start of year	**-**	**4,642**	**4,642**	**-**	**4,426**	**4,426**
Additions:						
Internal development	-	-	-	-	-	-
Purchases	-	771	771	-	232	232
Acquired through business combinations	-	-	-	-	-	-
Amortisation for the period	-	(987)	(987)	-	(1,317)	(1,317)
Net carrying amount at end of year	**-**	**4,426**	**4,426**	**-**	**3,341**	**3,341**
Comprising:						
Gross carrying amounts	-	8,974	8,974	-	9,206	9,206
Accumulated amortisation	-	(4,548)	(4,548)	-	(5,865)	(5,865)
	-	**4,426**	**4,426**	-	**3,341**	**3,341**

There are three items of capitalised software that are individually material to the financial statements:

Description	Carrying Amount 31 March 2010 £000	Carrying Amount 31 March 2011 £000	Remaining Amortisation Period
Microsoft Enterprise Agreement Software	929	643	1
SAP Software	3,059	2,346	3
ROCS ICT - Software	438	352	4

- Microsoft Enterprise Agreement Software - This is a software subscription, which enables the Council to upgrade to the latest versions of Microsoft software. It is a licensing vehicle used by large organisations that offers cost savings beyond standard license pricing, enables standardisation of IT across the organisation, and provides Software Assurance benefits.

- SAP Software - SAP is the electronic Enterprise Resource Planning (ERP) system used by the Council for managing financial transactions and Human Resources. This broadly covers Human Resource administration and payroll transactions; financial and management accounting; and purchasing transactions ranging from paying and raising invoices to buying goods.

- ROCS ICT-Software 2005-06 – This is a software solution from Bentley systems providing an Integrated Highways Management Solution with systems covering highway maintenance and inspections, public enquires and the management of infrastructure assets. Investment in this software was part of the overall programme to improve highway services to the public, which involved adopting new ways of working to deliver a more integrated, customer oriented service.

17. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long term		Current	
	31 March 2010 Restated	31 March 2011	31 March 2010 Restated	31 March 2011
	£000	£000	£000	£000
Financial Assets				
Investments				
Loans and receivables	1	1	167,999	179,550
Accrued Interest	-	-	52	54
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total Investments	**1**	**1**	**168,051**	**179,604**
Cash and Cash Equivalents	**-**	**-**	**40,951**	**42,500**
Debtors				
Loans and receivables	654	772	18,098	14,908
Financial assets carried at contract amounts	-	-	-	-
Total Debtors	**654**	**772**	**18,098**	**14,908**
Total Financial Assets	**655**	**773**	**227,100**	**237,012**

Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	(241,241)	(241,241)	(196)	(151)
Financial liabilities at fair value through profit and loss	-	-	-	-
Accrued Interest (current creditor)	-	-	(1,152)	(1,153)
Accounting adjustments	(21)	(21)	-	-
Total Borrowings	**(241,262)**	**(241,262)**	**(1,348)**	**(1,304)**
Cash and Cash Equivalents	**-**	**-**	**(8,669)**	**(11,743)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(35,028)	(32,301)	-	-
Total Other Long Term Liabilities	**(35,028)**	**(32,301)**	**-**	**-**
Creditors				
Financial liabilities at amortised cost	-	-	(79,440)	(79,140)
Financial liabilities carried at contract amount	-	-	-	-
Total Creditors	**-**	**-**	**(79,440)**	**(79,140)**
Total Financial Liabilities	**(276,290)**	**(273,563)**	**(89,457)**	**(92,187)**

Income, Expense, Gains and Losses

2009/10	**Financial Liabilities measured at amortised cost**	**Financial Assets: Loans and receivables**	**Financial Assets: Available for sale**	**Assets and Liabilities at Fair Value through Profit and Loss**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Interest expense	(13,880)	-	-	-	(13,880)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	(997)	-	-	-	(997)
Fee expense	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**(14,877)**	-	-	-	**(14,877)**
Interest income	-	2,238	-	-	2,238
Interest income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	181	-	-	181
Fee income	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	2,419	-	-	2,419
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	(1,313)	-	-	(1,313)

Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-
Net gain/(loss) for the year	(14,877)	1,106	-	-	(13,771)

2010/11	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000
Interest expense	(13,191)	-	-	-	(13,191)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	(1,450)	-	-	-	(1,450)
Fee expense	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**(14,641)**	-	-	-	**(14,641)**
Interest income	-	2,691	-	-	2,691
Interest income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	-	-	-	-
Fee income	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	2,691	-	-	2,691
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	(1,277)	-	-	(1,277)
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-
Net gain/(loss) for the year	**(14,641)**	**1,414**	**-**	**-**	**(13,227)**

Fair Values of Assets and Liabilities

Financial liabilities, financial assets (represented by loans and receivables), long term debtors and long term creditors 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:

- estimated ranges of interest rates at 31 March 2011 of 3.0% to 8.6% for loans from the PWLB and 3.7% to 4.3% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2010 Restated		31 March 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial Liabilities	(286,307)	(309,143)	(286,610)	(317,186)
Long Term Creditors	-	-	-	-

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders below current market rates.

Current creditors are carried at cost, as this is a fair approximation of their value and therefore are excluded from the table above.

	31 March 2010 Restated		31 March 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and Receivables	209,003	209,003	222,105	222,105
Long Term Debtors	654	654	772	772

The fair value of the assets is equal to the carrying amount because the Council's portfolios of investments are all short term.

Current debtors are carried at cost, as this is a fair approximation of their value and therefore are excluded from the table above.

18. Inventories

	Consumable Stores		Total	
	2009/10	2010/11	2009/10	2010/11
	£000	£000	£000	£000
Balance outstanding at start of year	**39**	**72**	**39**	**72**
Purchases	485	579	485	579
Recognised as an expense in the year	(452)	(515)	(452)	(515)
Written off balances	-	-	-	-
Reversals of write-offs in previous years	-	-	-	-
Balance outstanding at year-end	**72**	**136**	**72**	**136**

These include:

- Salt - In normal conditions the Council does not hold salt stocks - these are held by May Gurney as part of the highways maintenance contract. Given recent circumstances, however, it has been deemed prudent to hold salt stocks in addition to that which we can contractually require May Gurney to;
- Discounted Brighton & Hove Bus Tickets;
- Seven Sister Visitor Centre stock for resale;
- ICT - Cartridges and Paper.

19. Construction Contracts

At 31 March 2011, the Council in conjunction with Brighton & Hove City Council had PFI construction project/contract in progress, i.e., the construction of a new Waste Incinerator for the County. The value of work completed at 31 March 2011 has not been established.

20. Current and Long Term Debtors

	31 March 2010 Restated £000	31 March 2011 £000
Current Debtors		
Central Government Bodies	5,280	5,685
Other Local Authorities	8,029	6,397
Other entities and individuals	17,479	14,011
Total	**30,788**	**26,093**

	31 March 2010 £000	31 March 2011 £000
Long Term		
Waste PFI Prepayment	25,309	30,956
Other	653	773
Total	**25,962**	**31,729**

Allowance for debts impairment - The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. Increased provision for bad debt adjustment of £281,307 was made in 2010/11, and decreased provision of £37,660 in 2009/10. Management specifically review all debts, and evaluate the adequacy of the allowance for impairment of receivables. However, most categories of the Council's debtors are not subject to substantial fluctuation and past experience is used within material limits to judge the percentages of each type of debt that will not eventually be recovered.

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2010 Restated £000	31 March 2011 £000	Movement £000
Cash in hand	200	195	(5)
Short-term deposits	40,951	42,500	1,549
Total Cash and Cash Equivalents	**41,151**	**42,695**	**1,544**
Imputed cash adjustment for South Downs Joint Committee and Primary Care Trusts	1,171	(140)	(1,311)
Accrued balance at bank and for third parties	(9,840)	(11,603)	(1,763)
Total cash overdrawn	**(8,669)**	**(11,743)**	**(3,074)**
Total Cash	**(32,482)**	**(30,953)**	**(1,530)**

Notes 32 and 49 set out some details of the arrangements under which the 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 Council and the share of the arrangements' cash, which is eventually allocable to the Council. This difference is recorded above as 'imputed cash'.

The 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 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 Accounting Statements 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 2010	31 March 2011
	£000	£000
East Sussex Fire and Rescue Authority	(5,446)	(7,030)
East Sussex Pension Fund	483	1,041
Trust Funds	(212)	(195)
Concessionary Fare	974	1,315
Unpresented cheques, BACS payments, etc.	(5,639)	(6,734)
Accrued balance at bank and for third parties	**(9,840)**	**(11,603)**

The pooled bank balances at 31 March 2011 include £20.1m (£20m at 31 March 2010) relating to bank accounts operated by schools under local management arrangements.

22. Assets held for Sale

Description	2009/10 (1 April 2009)	Current 2009/10	2010/11
	£000	**£000**	**£000**
Balance outstanding at start of year	-	-	-
Assets newly classified as held for sale:			
Property, Plant and Equipment	-	-	1,950
Balance outstanding at year end	-	-	**1,950**

23. Creditors

	31 March 2010 Restated	31 March 2011
	£000	**£000**
Central Government Bodies	10,060	10,097
Other Local Authorities	5,500	1,945
Public Corporation and trading funds	654	3,266
Other creditors and accruals	69,739	66,574
	85,953	**81,882**

24. Provisions

Provisions are amounts set aside in the Accounting Statements for liabilities or losses which are certain or very likely to occur and for which a reliable estimate of the amount of the obligation can be made. The provision has been established for material liabilities of uncertain timing. The following table shows the level of the Council's provisions:

Long Term Provisions	Opening Balance 1 April 2010 £000	Additional provisions £000	Amounts used £000	Closing Balance 31 March 2011 £000
Adult Social Care legal costs	217	-	(95)	122
Insurance claims	3,874	833	(28)	4,679
Section 117 liabilities	800	-	-	800
Total	**4,891**	**833**	**(123)**	**5,601**

Short Term Provisions	Opening Balance 1 April 2010 £000	Additional provisions £000	Amounts used £000	Closing Balance 31 March 2011 £000
Adult Social Care legal costs	78	-	-	78
Redundancies - ASC	53	284	-	337
Redundancies – Economy, Transport & Environment (E,T&E)	317	-	(317)	-
Learning Disability Care Costs	155	-	(155)	-
Tipper operator - public enquiry	44	-	(44)	-
Schools Restructure	184	20	-	204
Governance & Community Services (GCS) Redundancy	-	34	-	34
Total	**831**	**338**	**(516)**	**653**

The provision for Adult Social Care (ASC) legal costs relates to cases where the Council is liable for the costs, but the amount and/or settlement date has yet to be determined.

The provision for insurance claims (Pre 1997 & Post 1997 liabilities) represents an estimate of the amounts, which the Council will have to pay for claims arising before 31 March 2011, but where the exact amount and the date of payment are uncertain.

Redundancy ASC – the provision relates to the potential costs associates with an Employment Tribunal ruling for a member of staff, and to the liability arising from the Voluntary Redundancy Scheme, for staff where approval to leave the Council under this scheme has been granted but for whom the leaving date will be in 2011/12.

Between 1993 and 2000, the 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 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.

Schools Restructure - The 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. Restructurings have been agreed in principle before 31 March 2011 although details of individual cases had not been finalised. Therefore, a provision was created in the 2010/11 to cover the estimated costs flowing from the decision to proceed with the restructuring.

GCS Redundancy - A decision has been taken to remove two posts from the structure and this provision represents the estimated costs of these redundancies.

25. Usable Reserves

The Council holds a number of usable reserves, being those reserves that the Council can use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement below:

County Fund & School Balances - The County Fund and School balances shows the resources available to meet future running costs.

Earmarked Reserves - The Council holds a number of earmarked reserves which are used to earmark resources for specific projects/purposes; see note 10 for a breakdown of General Fund earmarked reserves.

Capital Receipts Reserve – see note below.

Capital Grant Unapplied Account
The Capital Grant Unapplied Account holds capital grants (with either no conditions or where conditions have been met) received by the Council where expenditure is yet to be incurred.

	Opening Balance	Closing Balance Restated	Closing Balance
	1 April 2010	31 March 2010	31 March 2011
	£000	£000	£000
Usable Capital Receipts Reserve	4,827	4,218	6,372
Earmarked Reserves	160,565	163,130	179,470
Earmarked Reserves – Revenue Grant & Contribution	-	-	5,605
County Fund balances	7,475	7,540	7,540
School Balances	10,391	11,753	13,518
Total Usable Reserves	**183,258**	**186,641**	**212,505**

Usable Capital Receipts Reserve

The capital receipts reserve holds the proceeds of non current asset sales available to meet future capital investment. The Capital Receipts Reserve is only used to fund capital expenditure or repay debt. Capital receipts are held in this reserve until such time they are used to finance capital expenditure.

	2009/10	2009/10 Restated	2010/11
	£000	£000	£000
Balance at 1 April	**4,827**	**4,827**	**4,218**
Amounts receivable during the year	1,391	1,391	3,154
Amounts applied to finance new capital investment	(2,000)	(2,000)	(1,000)
Net Transfer to the Capital Receipts Reserve	(609)	(609)	2,154
Balance at 31 March	**4,218**	**4,218**	**6,372**

26. Unusable Reserves

	Opening Balance	Closing Balance Restated	Closing Balance
	1 April 2010	31 March 2010	31 March 2011
	£000	£000	£000
Revaluation Reserve	37,432	55,521	126,278
Capital Adjustment Account	438,116	459,721	443,752

Financial Instruments Adjustment Account	(3,047)	(2,926)	(1,476)
Collection Fund Adjustment Account	(156)	(339)	1,404
Accumulated Absences Account	(8,313)	(8,640)	(8,633)
Pensions Reserve	(262,593)	(515,937)	(227,865)
Total Unusable Reserves	**201,439**	**(12,600)**	**333,460**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant, and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

	2009/10	**2009/10 Restated**	**2010/11**	
	£000	**£000**	**£000**	**£000**
Balance at 1 April	35,374	36,128		55,521
Write off of balances on Investment Properties	-	(125)	-	
Upward revaluation of assets	25,719	25,719	82,742	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(5,102)	(5,102)	(677)	
Reversal of previous years revaluation losses	-	-	(2,023)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	20,617	20,492		80,042
Difference between fair value depreciation and historical cost depreciation	(972)	(972)	(1,376)	
Accumulated gains on assets sold or scrapped	(127)	(127)	(7,909)	
Amount written off to the Capital Adjustment Account	(1,099)	(2,403)		(9,285)
Balance at 31 March	**54,892**	**55,521**		**126,278**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction, and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant, and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2009/10	2009/10 Restated	2010/11	
	£000	£000	£000	£000
Balance at 1 April	**287,828**	**439,420**		**459,721**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non-current assets	(33,028)	(33,288)	(35,348)	
Revaluation losses on non-current assets	(11,252)	(11,252)	(28,107)	
Revaluation loss reversals on non-current assets	-	-	2,023	
Amortisation of intangible assets	(987)	(987)	(1,317)	
Revenue expenditure funded from capital under statute	(8,208)	(8,208)	(5,243)	
Gain on acquisition of properties transferred from PCT's	-	-	7,156	
Gain on property transferred from Investment Properties to PP&E	-	-	125	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,650)	(4,650)	(31,542)	
	(58,125)	**(58,385)**		**(92,253)**
Adjusting amounts written out of the Revaluation Reserve	1,099	2,403		9,285
Net written out amount of the cost of non-current assets consumed in the year	**(57,026)**	**(55,982)**		**(82,968)**
Capital financing applied in the year				
Use of the Capital Receipts Reserve to finance new capital expenditure	2,000	2,000	1,000	
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-	52,664	43,150	
Application of grants to capital financing from the Capital Grants Unapplied Account	22,068	-	-	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	12,568	12,915	15,980	
Capital expenditure charged against the General Fund and HRA balances	10,008	10,008	6,869	
	46,644	**77,587**		**66,999**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-	-		-
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-	-		-
Balance at 31 March	**277,446**	**459,721**		**443,752**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next two years.

	2009/10	2009/10 Restated	2010/11	
	£000	£000	£000	£000
Balance at 1 April	**(3,047)**	**(3,047)**		(2,926)

Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(793)	(793)	-	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	838	838	1,450	
Soft Loan Adjustment	76	76	-	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	121	121		1,450
Balance at 31 March	**(2,926)**	**(2,926)**		**(1,476)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2009/10	2009/10 Restated	2010/11
	£000	£000	£000
Balance at 1 April	**(262,593)**	**(262,593)**	**(515,937)**
Actuarial gains or losses on pensions assets and liabilities	(244,909)	(244,909)	185,862
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(40,963)	(40,963)	68,352
Employer's pensions contributions and direct payments to pensioners payable in the year	32,528	32,528	33,858
Balance at 31 March	**(515,937)**	**(515,937)**	**(227,865)**

The Council's actuaries (Hymans Robertson LLP) carried out an additional review after the end of the 2010/11 accounting year to identify exactly how the responsibilities for historic unfunded pension benefits are split between East Sussex County Council and Brighton & Hove City Council. The result of this work is that East Sussex County Council's responsibility for unfunded pensions has reduced from £5.4m per annum to £4.9m per annum. The 2010/11 balance sheet net liability at 31 March 2011 has reduced by £6.5m from £234.4m to £227.9m. However, the impact on 2009/10 balance sheet of £4.3m net reduction, are not considered to be material to the overall financial statements, therefore, previous year pension reserve balance has not been amended.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Council Tax income is collected on behalf of the Council on an agency basis by the five billing authorities in East Sussex: Eastbourne Borough Council, Hastings Borough Council, Lewes District Council, Rother District Council, and Wealden District Council.

From 1 April 2009, the Council as a precepting authority is required to show council tax income in its Income and Expenditure Account on an accruals basis. The difference between the income included in the Income and Expenditure account and the amount required by legislation to be credited to the County Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the County Fund Balance.

	2009/10	2009/10 Restated	2010/11
	£000	£000	£000
Balance at 1 April	**(156)**	**(156)**	**(339)**

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(183)	(183)	1,743
Balance at 31 March	**(339)**	**(339)**	**1,404**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2009/10	2009/10 Restated	2010/11
	£000	**£000**	**£000**
Balance at 1 April	**-**	**(8,313)**	**(8,640)**
Settlement or cancellation of accrual made at the end of the preceding year	-	8,313	8,640
Amounts accrued at the end of the current year	-	(8,640)	(8,633)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	(327)	7
Balance at 31 March	**-**	**(8,640)**	**(8,633)**

27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2009/10 Restated	2010/11
	£000	**£000**
Interest received	(5,251)	(2,682)
Interest paid	16,711	16,281
Dividends received	-	-

28. Cash Flow Statement – Investing Activities

	2009/10 Restated	2010/11
	£000	**£000**
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	79,847	67,127
Purchase of short-term and long-term investments	-	11,550
Other payments for investing activities	12,412	13,599
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(1,391)	(3,155)

Proceeds from shot-term and long-term investments	(32,000)	-
Other receipts from investing activities	(51,228)	(33,623)
Net cash flows from investing activities	**7,640**	**55,498**

29. Cash Flow Statement – Financing Activities

	2009/10 Restated	2010/11
	£000	**£000**
Cash receipts of short- and long-term borrowing	-	-
Other receipts from financing activities	-	-
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,129	1,396
Repayments of short- and long-term borrowing	22,962	-
Other payments for financing activities	14	44
Net cash flows from financing activities	**24,105**	**1,440**

30. Amounts reported for resource allocation decisions

The Council Chief Operating Decision Maker is the Council, Cabinet, and Chief Officers Management Team (COMT). Both elected representatives (councillors) and paid employees (council officers) work together to supply these services for East Sussex.

The Council has 49 Councillors who are elected by residents of East Sussex. The people who stand for election as Councillors may belong to one of the national political parties or to a local political party, or they may be completely independent of a political party. If more than half the people on a council belong to one political party, that party is referred to as the majority party. Following the last local elections, which took place in June 2009, the political make-up of East Sussex County Council is: Conservative: 29 ; Liberal Democrat: 13 ; Labour: 4; Independent: 3 . Councillors are responsible for making sure that the services that the Council provides meet the needs of residents and those who work in the county.

The Cabinet is responsible for most day-to-day Council decisions, while the full Council of 49 Councillors is responsible for agreeing the main policies and priorities for all services, including the Council's budget. They do this by setting the overall policies and strategies for the Council and by monitoring the way in which these are implemented. In addition, the Council responsible for ensuring that our business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is used economically, efficiently and effectively.

The Cabinet and the full Council debate reports about our progress against the Plan, these monitoring reports highlight our achievements, areas of concern and remedial action using a traffic light system. Budget monitoring and proactive budget management are vital parts of the management of the Council. The Council's spending against its Revenue and Capital Programmes is monitored throughout each year and regularly reported to Cabinet. This is supported by a comprehensive monitoring system, with Chief Officers responsible for their departments' budget management. Reports are made to the Director of Corporate Resources detailing actual and potential variations on revenue and capital spending, risks and pressures, together with the actions that are being taken or planned to manage these variations/risks.

In year budget monitoring is an important guide to setting the budget for the following year and also enables final accounts to be produced quickly, accurately and in accordance with the legislative requirements.

Chief Officers Management Team (COMT) are the people who work for the Council and who are paid to deliver the services agreed by Councillors. Chief Officers help Councillors to develop policies and objectives but their main role is to provide the public with the highest possible standards of service within the money that the Councillors make available

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to departments.

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

2010/11 Department Income and Expenditure	**Adult Social Care**	**Governance & Community Service**	**Children's Services**	**Corporate Resources**	**Economy, Transport & Environment**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(56,554)	(14,156)	(152,962)	(28,786)	(60,645)	(313,103)
Government grants	(5,619)	(2,925)	(356,313)	(1)	(6,584)	(371,442)
Total Income	**(62,173)**	**(17,081)**	**(509,275)**	**(28,787)**	**(67,229)**	**(684,545)**
Employee expenses	50,596	18,830	307,811	10,718	14,850	402,805
Other service expenses	176,534	11,699	187,184	24,198	109,601	509,216
Support service recharges	6,459	3,909	103,973	4,791	7,648	126,780
Total Expenditure	**233,589**	**34,438**	**598,968**	**39,707**	**132,099**	**1,038,801**
Net Expenditure	**171,416**	**17,357**	**89,693**	**10,920**	**64,870**	**354,256**

2009/10 Department Income and Expenditure	**Adult Social Care**	**Governance & Community Service**	**Children's Services**	**Corporate Resources**	**Economy, Transport & Environment**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(54,365)	(14,501)	(138,765)	(28,921)	(88,097)	(324,649)
Government grants	(14,594)	(1,713)	(338,721)	103	(5,732)	(360,657)
Total Income	**(68,959)**	**(16,214)**	**(477,486)**	**(28,818)**	**(93,829)**	**(685,306)**
Employee expenses	52,775	21,110	301,621	11,160	15,676	402,342
Other service expenses	168,117	11,419	170,946	30,388	137,307	518,177
Support service recharges	6,896	4,249	91,099	3,464	7,708	113,416
Recognised Capital Grants & Contributions	399	16	19,643	519	1,491	22,068
Total Expenditure	**228,187**	**36,794**	**583,309**	**45,531**	**162,182**	**1,056,003**
Net Expenditure	**159,228**	**20,580**	**105,823**	**16,713**	**68,353**	**370,697**

Reconciliation of Department Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2009/10	2010/11
	£000	£000
Net expenditure in the Department Analysis	**370,697**	**354,256**
Net expenditure of services and support services not included in the Analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	45,101	(34,238)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(62,618)	(57,376)
Cost of Services in Comprehensive Income and Expenditure Statement	**353,180**	**262,642**

Reconciliation to Subjective Analysis

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

2010/11	Department Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(313,103)	-	-	-	(313,103)	-	(313,103)
Net surplus on trading undertakings	-	-	-	-	-	(167)	(167)
Interest and investment income-	-	-	-	-	-	(2,691)	(2,691)
Income from council tax-	-	-	-	-	-	(238,833)	(238,833)
Revenue Support Grant	-	-	-	-	-	(12,695)	(12,695)
Area Based Grant	-	-	-	-	-	(33,747)	(33,747)
Non-Domestic Rates	-	-	-	-	-	(87,424)	(87,424)
Government grants and contributions	(371,442)	-	-	-	(371,442)	(50,307)	(421,749)
Total Income	**(684,545)**	**-**	**-**	**-**	**(684,545)**	**(425,864)**	**(1,110,409)**
Employee expenses	402,805	-	-	126,780	529,585	-	529,585
Other service expenses	514,458	(96,989)	(57,376)	-	359,855	-	359,855
Support Service recharges	126,780	-	-	(126,780)	-	-	-
Depreciation, amortisation and impairment	-	62,751	-	-	62,751	-	62,751
Pensions interest cost and net return on assets	-	-	-	-	-	12,205	12,205
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	3,091	3,091
Interest Payments	-	-	-	-	-	13,191	13,191

Precepts & Levies	-	-	-	-	-	453	453
Gain or Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	28,262	28,262
Total expenditure	**1,038,801**	**(34,238)**	**(57,376)**	**-**	**947,186**	**57,202**	**1,004,388**
Surplus or deficit on the provision of services	**354,256**	**(34,238)**	**(57,376)**	**-**	**262,642**	**(368,662)**	**(106,020)**

2009/10	Department Analysis	Amounts not reported to manage ment for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporat e Amounts	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(324,649)	-	-	-	(324,649)	-	(324,649)
Net surplus on trading undertakings	-	-	-	-	-	(316)	(316)
Interest and investment income-	-	-	-	-	-	(2,238)	(2,238)
Income from council tax-	-	-	-	-	-	(230,936)	(230,936)
Revenue Support Grant	-	-	-	-	-	(18,136)	(18,136)
Local Authority Business Growth Incentive Grant	-	-	-	-	-	(156)	(156)
Area Based Grant	-	-	-	-	-	(25,124)	(25,124)
Non-Domestic Rates	-	-	-	-	-	(78,573)	(78,573)
Recognised capital grants and contributions	-	-	-	-	-	(52,664)	(52,664)
Government grants and contributions	(360,657)	-	-	-	(360,657)	-	(360,657)
Total Income	**(685,306)**	-	-	-	**(685,306)**	**(408,143)**	**(1,093,449)**
Employee expenses	402,342	-	-	113,416	515,758	-	515,758
Other service expenses	518,177	(70)	(62,618)	-	455,489	-	455,489
Support Service recharges	113,416	-	-	(113,416)	-	-	-
Depreciation, amortisation and impairment	-	45,171	-	-	45,171	-	45,171
Amortisation of Government Grant/Contributions Deferred	22,068	-	-	-	22,068	-	22,068
Pensions interest cost and net return on assets	-	-	-	-	-	19,795	19,795

Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	2,873	2,873
Interest Payments	-	-	-	-	-	13,880	13,880
Precepts & Levies	-	-	-	-	-	443	443
Net premiums for early repayment of loans	-	-	-	-	-	952	952
Gain or Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	3,259	3,259
Total expenditure	**1,056,003**	**45,101**	**(62,618)**	**-**	**1,038,486**	**41,202**	**1,079,688**
Surplus or deficit on the provision of services	**370,697**	**45,101**	**(62,618)**	**-**	**353,180**	**(366,941)**	**(13,761)**

East Sussex County Council departments and responsibilities –

The Council's five departments and their main responsibilities are:

- Adult Social Care – provide social care services for residents over 16, including residential care and sensory care services. This department covers working with partners to provide services which promote choice, independence and the well-being of people and their carers including the elderly, those with learning and physical disabilities, and those with mental health issues. Other major local services provided include: assessing people's need for social care; help for people to remain in their own homes; home care; respite care; occupational therapy and home adaptations; etc.

- Governance and Community Services – responsible for trading standards, register offices, supporting economic regeneration, community planning and libraries. The department ensures safer communities, provide community leadership, support strategic partnerships, and improve library services.

- Children's Services – provide social care for people under 16, state education and other childcare services. The department covers education and schools services and working with partners and local communities to provide effective support to children, young people and families. Other major local services provided include: adoption and fostering ; child protection ; improving the prospects for vulnerable children; improving behaviour in schools ; early years education and child care; encouraging children to have a voice; looking after children in care, etc.

- Corporate Resources – responsible for managing the budget, auditing our finances, promoting the electronic delivery of services, and improving the management of our financial and property resources.

- Transport and Environment – responsible for maintaining roads, providing public transport and managing the local environment. The department covers improvement to road safety, travel choices and reduce traffic congestion, the management and reduction of waste, statutory plans for a better environment for future generations; the protection of and access to the countryside and the way in which we promote the interests of East Sussex in the development of new and existing infrastructure.

Our Promise to the residents of East Sussex is that we will be an efficient, customer focused, accountable authority, working with partners and local communities to:

- make a positive difference to local people's lives
- create a prosperous and safe county
- provide affordable, high quality services at lowest possible council tax.

This promise is supported by policy steers for each portfolio. The policy steers are reviewed annually in the light of local and national intelligence, as part of our Reconciling Policy and Resources process, which is the process we have developed to ensure that our plans and budgets are aligned.

31. Trading Operations

The Council has trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. The table below analyses the figure shown in the Comprehensive Income and Expenditure Account as the net effect of trading accounts:

	2009/10 Restated			2010/11		
	Expenditure	Income	Net	Expenditure	Income	Net

	£000	£000	£000	£000	£000	£000
County Catering Service	374	(388)	(14)	344	(330)	14
County Transport Group	121	(495)	(374)	545	(757)	(212)
Chiltern	21	(6)	15	25	(10)	15
Hospitality Hub	14	-	14	23	(1)	22
Sidley Café	-	-	-	26	(6)	20
Fleet Management	3	(3)	-	3	(3)	-
ICT	-	-	-	6	(4)	2
1970 Act (see below)	2,653	(2,581)	72	2,651	(2,620)	31
Total	**3,186**	**(3,473)**	**(287)**	**3,623**	**(3,731)**	**(108)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public, whilst others are support services to the Council's services to the public. The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. The 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 the Council's expenditure generally and can be summarised as follows:

	2009/10			2010/11		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
Legal Services	319	(319)	-	319	(319)	-
County Records	389	(389)	-	395	(395)	-
School Library Service	113	(113)	-	114	(114)	-
Music Tuition	190	(118)	72	192	(161)	31
Street Lighting	207	(207)	-	207	(207)	-
Lewes Car Parking scheme	381	(381)	-	381	(381)	-
ICT Services	24	(24)	-	24	(24)	-
Financial Services	292	(292)	-	292	(292)	-
Property Services	119	(119)	-	119	(119)	-
Other	619	(619)	-	608	(608)	-
Total	**2,653**	**(2,581)**	**72**	**2,651**	**(2,620)**	**31**

32. *Pooled Budgets - Partnership Schemes under* Section 75 of the National Health Services Act 2006

In 2010/11 the Council participated in four partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006. One with Sussex Partnership NHS Trust and three with the Primary Care Trusts: East Sussex Downs and Weald PCT and Hastings and Rother PCT.

- The **Mental Health Crisis Response & Home Treatment and Community Finance** schemes, which started in April 2010, comprises the Council together with Sussex Partnership NHS Foundation Trust as host agency.
- The **Integrated Community Equipment Service** scheme, which started in September 2004, comprises the 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 Council together with Hastings and Rother PCT as host agency.
- The **Carers Service** scheme started in April 2004 and comprises the 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:

	2009/10			2010/11		
	Expenditure	Income	ESCC Contribution	Expenditure	Income	ESCC Contribution
	£'000	£'000	£'000	£'000	£'000	£'000
Arrangement						

Mental Health – Crisis Response & Home Treatment	-	-	-	2,463	(2,463)	(92)
Mental Health – Community Forensic	-	-	-	477	(477)	(132)
Integrated Community Equipment	3,490	(3,490)	(1,745)	3,329	(3,386)	(1,693)
Community Collaborative Rehabilitation	542	(547)	(147)	480	(532)	(149)
Carers Services	595	(595)	(326)	595	(595)	(326)
Total	**4,627**	**(4,632)**	**(2,218)**	**7,344**	**(7,453)**	**(2,392)**

33. Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2009/10	2010/11
	£000	£000
Salaries (Basic allowances)	528	531
Members - NI & Pension	110	117
Special responsibility allowances	218	222
Expenses	32	40
Total	**888**	**910**

The table below shows the actual amounts paid to individual members in the 2010/11 financial year (excluding employer NI & pension contributions). The amounts to which Members' are entitled, including the basic allowance for every member and expenses for special responsibilities, travel, phones etc, are published annually and form part 6 of our Constitution.

Actual amounts paid to individual members in 2010/11

Name	Basic Allowance	Special Responsibility Allowance	Travel by car	Fare and Subsistence
	£	£	£	£
Barnes	10,842	-	-	-
Belsey	10,842	-	1,006	6
Bennett	10,842	-	1,634	-
Bentley	10,842	14,452	2,292	9
Birch	10,842	-	-	-
Daniel	10,842	6,021	1,194	-
Dowling	10,842	4,821	564	-
Elkin	10,842	14,452	2,201	159
Ensor	10,842	6,021	-	-
Fawthrop	10,842	-	402	-
Field	10,842	3,129	1,287	-
Freebody	10,842	-	411	-
Freeman	10,842	-	418	-
Gadd	10,842	-	222	19
Glazier	10,842	15,654	3,086	762
Harris	10,842	-	-	-
Healy	10,842	-	598	2
Heaps	10,842	-	-	-
Howson	10,842	-	381	-
Hughes	10,842	-	-	-
Jones	10,842	24,087	3,591	-
Kenward	10,842	-	709	-
Lambert	10,842	-	-	-
Livings	10,842	-	522	44
Lock	10,842	14,452	3662	702
Maynard	10,842	14,452	-	-
O'Keefe	10,842	-	-	-

Ost	10,842	-	238	17
Pragnell	10,842	-	-	-
Reid	10,842	16,860	1,556	392
Rodohan	10,842	-	-	-
Rogers	10,842	-	422	34
Scott	10,842	-	840	-
Shing, DS	10,842	-	-	5
Shing, S	10,842	-	273	-
Simmons	10,842	12,042	182	-
Sparks	10,842	6,021	229	-
St Pierre	10,842	-	-	-
Stogdon	10,842	6,021	1,034	10
Stroude	10,842	14,452	1,430	67
Taylor	10,842	6,021	-	-
Thomas	10,842	-	2,551	852
Thompson	10,842	-	-	218
Tidy, B	10,842	14,452	1,168	75
Tidy, S	10,842	6,021	817	67
Tutt	10,842	12,042	378	45
Waite	10,842	6,021	1,292	2
Webb	10,842	4,821	-	-
Whetstone	10,842	-	-	-

34. Officers' Remuneration

The following table sets out and provides information about the remuneration of those senior managers who influence the decisions of the Council as a whole, i.e., for Senior Officers whose salary is less than £150,000 but equal to or more than £50,000. In addition, the disclosures below include all Senior Officers whose salary is more than £150,000 per year. The remuneration paid to the Council's senior employees is as follows:

Senior Employees Remuneration 2010 - 2011

	Notes	Salary, Fees and Allowances	Bonuses	Expenses Allowances (incl. Benefit in Kind)	Compensation of Loss of Employment	Employer's Pension Contributions	Total
		£	£	£	£	£	£
Chief Executive – Becky Shaw		166,874	-	-	-	31,873	198,747
Chief Executive (retired) - Cheryl Miller	1	15,092	-	70	-	198,554	213,716
Director of Corporate Resources - Sean Nolan		153,933	-	52	-	29,401	183,386
Director of Children's Services	2	135,060	3,376	687	-	26,441	165,564
Director of Adult Social Care		128,193	-	628	-	24,485	153,306
Director of Transport and Environment		121,320	-	894	-	23,172	145,386
Interim Director of Governance and Community Services	3	125,119	-	-	-	-	125,119

Notes:
1. Employer's Pension Contributions includes 3 years Augmentation on retirement (w.e.f 30 April 2010) with a cost to the employer of £195,671.56.
2. Bonuses relates to Honorarium payments 2.50% of salary in previous year
3. The Interim Director of Governance and Community Services is not an employee of the Council. Engaged via an agency, the value stated is the amount paid to the agency for services in the 2010-11 financial year.

Senior Employees Remuneration 2009 - 2010

	Notes	Salary, Fees and Allowances	Bonuses	Expenses Allowances (incl. Benefit in Kind)	Compensation of Loss of Employment	Employers Pension Contributions	Total

		£	£	£	£	£	£
Chief Executive - Cheryl Miller	1	181,098	12,928	2,154	-	37,059	233,239
Director of Corporate Resources - Sean Nolan	1	153,933	11,319	231	-	31,563	197,046
Director of Children's Services	1	135,060	9,931	916	-	27,693	173,600
Director of Law and Personnel	1,2	130,292	9,173	-	65,329	165,152	369,946
Director of Adult Social Care	1	121,320	-	886	-	23,172	145,378
Director of Policy & Communications	1	121,320	8,661	-	-	24,826	154,807
Director of Transport and Environment	1	114,873	8,408	1,120	-	24,104	148,505

Notes:
1. Bonuses relates to Honorariums payments 7.50% of salary in previous year
2. Employers Pension Contributions includes 3 years Augmentation on retirement with a cost to the employer of £138,915.

*Cheryl Miller retired as the Council's Chief Executive on 30th April 2010, after 16 years of exceptional service on behalf of the Council. She is one of the longest serving chief executives in the country. In accordance with County Council policies, applying to all employees, Cheryl Miller was awarded three additional year's pension, and she will not receive any severance payment. The pension cost is covered by the Council making allowances in respect of non ill-health early retirements by contributing an additional 1% to cover such costs. It does not, therefore, represent a new cost to the Council.

The Council's other employees receiving more than £50,000 more remuneration for the year in bands of £5,000, excluding employer's pension contributions were:

Remuneration band	**2009/10**	**2010/11**
	Number of employees	**Number of employees**
£50,000 to £54,999	168	163
£55,000 to £59,999	75	95
£60,000 to £64,999	49	64
£65,000 to £69,999	16	36
£70,000 to £74,999	16	6
£75,000 to £79,999	16	17
£80,000 to £84,999	13	10
£85,000 to £89,999	4	7
£90,000 to £94,999	2	6
£95,000 to £99,999	2	2
£100,000 to £104,999	1	1
£105,000 to £109,999	1	1
£110,000 to £114,999	1	1
£115,000 to £119,999	1	1
£120,000 to £124,999	2	2
£125,000 to £129,999	2	2
£130,000 to £134,999	-	-
£135,000 to £139,999	-	1
£140,000 to £144,999	-	-
£145,000 to £149,999	1	-
£150,000 to £154,999	-	1
£155,000 to £159,999	-	-
£160,000 to £164,999	-	-
£165,000 to £169,999	1	1
£170,000 to £174,999	-	-
£175,000 to £179,999	-	-
£180,000 to £184,999	-	-

£185,000 to £189,999	-	-
£190,000 to £194,999	-	-
£195,000 to £199,999	1	-
£200,000 to £209,999	1	-

35. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors, i.e. with both Audit Commission (AC) and PKF (UK) LLP for services rendered during the year..

	2009/10 Restated	2010/11		
	£000 Total	£000 PKF	£000 AC	£000 Total
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	245	206	2	208
Fees payable to in respect of statutory inspections	18	-	-	-
Fees payable to for the certification of grant claims and returns for the year	17	17	-	17
Sub- Total	**280**	**223**	**2**	**225**
Fees payable in respect of Pension Fund Audit provided by external auditors during the year.	45	45	-	45
Total	**325**	**268**	**2**	**270**

36. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education (formerly 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 range of educational services provided on an authority-wide basis and for the Individual School Budget, which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2010/11 are as follows:

	2009/10	2010/11		
	Total £000	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for the year	266,665			275,978
Brought Forward from 2009/10	-			1,359
Carry forward to 2011/12 agreed in advance	1,622			-
Agreed budgeted distribution	268,287	42,181	235,156	277,337
Actual central expenditure	(37,714)	(41,395)	-	(41,395)

Actual Individual Schools Budget (ISB) deployed in schools	(232,081)		(235,156)	(235,156)
Local authority contribution	2,867	2,923	-	2,923
Carry forward to 2011/12	**1,359**	**3,709**	**-**	**3,709**

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2010/11 was £235.2m. Schools carried forward (reserve) a net total of £13.5m (5.7%) at the end of the financial year to 31 March 2011, which was a increase of £1.8m compared to 31 March 2010. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
All schools with surpluses					
Number of schools	**No.**	**140**	**24**	**10**	**174**
Total surplus	£000	7,454	5,947	840	14,241
All schools with deficits					
Number of schools	**No.**	**15**	**3**	**-**	**18**
Total surplus	£000	416	128	-	544
Carry forward	**£000**	**7,038**	**5,819**	**840**	**13,697**
Less Capital Loan to Schools	£000	-	180	-	180
Net carry forward	**£000**	**7,038**	**5,639**	**840**	**13,517**

This reserve represents unspent balances remaining at the year-end against schools delegated budgets. The main reasons why schools hold balances are - anticipation of future budget pressures usually arising from pupil 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 Council for general use

37. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2010/11

	2009/10 Restated	2010/11
	£000	**£000**
Credited to Taxation and Non Specific Grant Income		

Council tax	230,936	238,833
Non-Domestic Rates	78,573	87,424
Revenue Support Grant	18,136	12,695
Local Authority Business Growth Incentive Grant	156	-
Area Based Grant	25,124	33,747
Recognised capital grants and contributions	52,664	50,307
Total	**405,589**	**423,006**
Credited to Services		
DFES Dedicated Schools Grant	266,665	275,978
Standards Fund	25,829	30,017
School Standards Grant	13,738	13,955
General Sure Start Grant	13,000	16,722
Supporting People Administration	12,170	894
YPLA grant for Sixth Forms	11,982	11,725
The Private Finance Initiative	4,755	4,755
Other Grants	12,518	17,396
Total	**360,657**	**371,442**

Capital Grant Receipt in Advance

	2009/10	2010/11
	£000	£000
Capital Grant Receipt in Advance	36,556	32,085
Total	**36,556**	**32,085**

38. Related Parties

The 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 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 Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 35.

Members and Chief Officers

Members of the 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. The total of members' allowances paid in 2010/11 is shown in Note 31.

Other Public Bodies

During 2010/11, the Pension Fund had an average balance of £1.9m deposited with the Council, which paid £17,719 interest for these deposits. The Council charged the Fund £1.4m for expenses incurred in administering the Fund.

The Council is involved in several partnerships under Section 75 of the National Health Services Act 2006. The Bexhill & Rother Primary Care Trust is chaired by a member of the Council.

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 50). No balances were held by the Council at 31 March 2011.

A Councillor/Member of ESCC is also a Director of Ingham House Ltd, Ingham House Day Centre, and Nightingale Place Ltd. These organisations have received payments from ESCC in 2010-11 for the provision of services to the over 65s as individual Service Users for day and residential care. The total net amount received as at 31 March 2011 was £159,079.92 for residential care and £35,152 for day care.

The High Weald Unit of the Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd (see note 52 to the balance sheet) at an annual rent of £27,349. There were no long term debts to the company at 31 March 2011.

South Downs Joint Committee - The parties to the agreement were the Natural England, the County Councils of East Sussex, Hampshire & West Sussex, the unitary council of Brighton & Hove City and the Borough and District Councils of Adur, Arun, Chichester, Eastbourne, East Hampshire, Horsham, Lewes, Mid Sussex, Wealden, Worthing and Winchester City Council. The parties had 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 Sussex Downs and East Hampshire Areas of Outstanding Natural Beauty by establishing and supporting a joint committee for this purpose.

The Joint Committee was wound up on 31 March 2011 when it was superseded by the South Downs National Park Authority. The reserve balance, after transferring earmarked reserves to those bodies taking over projects or activities, and adjusting for post balance sheet transactions, will be distributed to the member parties on the basis of net contributions over the previous two complete financial years.

39. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2009/10 £000	2010/11 £000
Opening Capital Financing Requirement	284,118	332,841
Finance Leases	26,080	841
Opening Capital Financing Requirement (restated)	**310,198**	**333,682**
Property, Plant and Equipment	77,697	67,736
Investment Properties	-	-
Intangible assets	771	232
Assets Held for Sale	-	296
Revenue Expenditure Funded from Capital under Statute	8,207	4,756
Total capital investment	**86,676**	**73,020**
Capital receipts	(2,000)	(1,000)
Government grants and contributions	(52,664)	(43,151)
Revenue financing	(10,008)	(6,869)
Total financing other than from loan	**(64,672)**	**(51,020)**
Net investment financed from loan		
Minimum Revenue Provision (MRP) for the repayment of loans	(12,568)	(15,980)

Private Finance Initiative finance leases	13,207	-
Closing Capital Financing Requirement	**332,841**	**339,702**

The Capital Financing Requirement represents the 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.

	2009/10	**2010/11**
Explanation of movements in year	**£000**	**£000**
Increase in underlying need to borrowing (supported by government financial assistance)-	-	-
Increase in underlying need to borrowing (unsupported by government financial assistance)	9,436	6,020
Assets acquired under finance leases	-	-
Assets acquired under PFI/PPP contracts	13,207	-
Increase / (decrease) in Capital Financing Requirement	**22,643**	**6,020**

The Council accounts fully for depreciation of assets in line with accounting standards in the Comprehensive Income & Expenditure Statement, but it is legally obliged to provide for the repayment of a proportion of its Capital Financing Requirement (the Minimum Revenue Provision) in its charge to taxpayers.

40. Leases

Authority as Lessee

Finance Leases - The Council has restated four assets, previously classed as operating leases, as finance leases. The assets are on street parking machines in Lewes and Eastbourne, a print room copier and an ICT storage network. The assets under these leases are carried as Property, Plant, and Equipment in the Balance Sheet at the following net amounts:

	31 March 2010 Restated	**31 March 2011**
	£000	**£000**
Vehicles, Plant, Furniture and Equipment	1,121	906

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

	31 March 2010 Restated	**31 March 2011**
	£000	**£000**
Finance lease liabilities (net present value of minimum lease payments):		
Current	330	239
Non-current	614	375
Finance costs payable in future years	60	31
Minimum lease payments	**1,004**	**645**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		**Finance Lease Liabilities**	
	31 March 2010 Restated	**31 March 2011**	**31 March 2010 Restated**	**31 March 2011**

	£000	£000	£000	£000
Not later than one year	29	20	330	239
Later than one year and not later than five years	31	11	614	375
Later than five years	-	-	-	-
	60	**31**	**944**	**614**

Operating Leases - The Council leases land and buildings and vehicles, plant, furniture and equipment under operating leases. The typical lives are land and buildings 10 to 15 years, vehicles 5 to 7 years and equipment 3 to 5 years.

The future minimum lease payments payable in future years are:

	31 March 2010 Restated	31 March 2011
	£000	£000
Not later than one year	338	885
Later than one year and not later than five years	1,756	1,379
Later than five years	1,755	1,841
	3,849	**4,105**

The expenditure charged to during the year in relation to these leases was:

	2009/10 Restated	2010/11
	£000	£000
Vehicles	767	676
Schools Equipment	875	1,045
Land and Buildings	2,331	2,468
	3,973	**4,189**

Other payments for the renting and hiring of facilities in 2010/11 was £1.250m (£0.987m 2009/10).

Authority as Lessor

Finance Leases - The Council has no finance leases where it is the lessor.

Operating Leases - The Council leases out property under operating leases for the following purposes:

- schools and community centres for sports and other community uses
- depots in relation to service contracts
- properties surplus to requirements that are awaiting disposal.

The future minimum lease payments receivable in future years are:

	31 March 2010	31 March 2011
	£000	£000
Not later than one year	335	261
Later than one year and not later than five years	323	82
Later than five years	1,261	1,282
	1,919	**1,625**

The total income received from leasing, renting and hiring of facilities in 2010/11 was £2.721m (£2.680m 2009/10).

41. Private Finance Initiatives and Similar Contracts

Value of PFI assets at each balance sheet date and analysis of movement in those values.

Schools PFI	**Peacehaven School PFI**					
	Hodden Junior	Telscombe Cliffs	Meridian	Peacehaven Sec.	Peacehaven Infant	Total
	£000	£000	£000	£000	£000	£000
Value of Assets						
1 April 2010	**2,557**	**5,267**	**264**	**10,822**	**1,196**	**20,106**
Additions	12	26	-	63	12	113
Revaluations	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Depreciation	(75)	(155)	(8)	(318)	(35)	(591)
31 March 2011	***2,494***	***5,138***	***256***	***10,567***	***1,173***	***19,628***

Waste PFI	**Waste PFI**					
	Hollingdean WTS	Hollingdean MRF	Crow borough HWRS	Maresfields WTD & MRF	Whitesmith Composting Facility	Total
	£000	£000	£000	£000	£000	£000
Value of Assets						
1 April 2010	**5,240**	**5,239**	**2,531**	**3,323**	**9,884**	**26,217**
Additions	-	-	-	-	-	-

Revaluations	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Depreciation	(154)	(154)	(82)	(95)	(282)	(767)
31 March 2011	***5,086***	***5,085***	***2,449***	***3,228***	***9,602***	***25,450***

In addition to the tangible fixed assets, there is prepayment held on Balance Sheet in relation to the Waste PFI contract. The prepayment represents the amount included in the unitary charge that the Council has modelled as contributing towards the development of the Energy Recovery facility due to open 2011.

Details of payments to be made under PFI contracts

Waste PFI

In conjunction with Brighton and Hove City Council, the Council jointly 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 to 31 March 2033. Based on a projected 2.5% annual inflation rate the details of the payments due to be made are detailed below.

	Prepayments	Repayment of Liability	Interest	Service charge
	£000	£000	£000	£000
Within 1 year: 2011/12	54	2,077	4,694	15,488
Within 2 to 5 years: 2012/13 to 2015/16	-	9,778	17,807	67,186
Within 6 to 10 years: 2016/17 to 2020/21	-	11,641	19,088	100,774
Within 11 to 15 years: 2021/22 to 2025/26	-	20,896	15,058	114,164
Within 16 to 20 years: 2026/27 to 2030/31	-	28,295	8,641	134,521
Within 21 to 23 years: 2031/32 to 2032/33	-	13,885	1,157	60,117

Peacehaven Schools PFI

The 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 2011, and assuming a 3.0% inflation rate for the remaining life of the contract to 2025, the payments to be made are set out below:

	Liability	Interest	Service Charge	Contingent Rent
	£000	£000	£000	£000
Within 1 year: 2011/12	412	1,606	1,337	283
Within 2 to 5 years: 2012/13 to 2015/16	2,145	5,926	5,762	1,434
Within 6 to 10 years: 2016/17 to 2020/21	4,284	5,805	8,229	2,538
Within 11 to 15 years: 2021/22 to 2025/26	7,177	2,912	9,540	3,489
Within 16 to 17 years: to 2026/27	756	82	868	342

All operational PFI contracts are now accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual.

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The long term deferred liability as at 31 March 2011 was £31.9m (£17.5m for Waste PFI, and £14.4m for Peacehaven Schools PFI), and as at 31 March 2010 was £34.4m (£19.6m for Waste PFI, and £14.8m for Peacehaven Schools PFI). The long term liability is included under Deferred Liabilities in the Balance Sheet and the short term liability under Creditors.

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

Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

	Waste PFI	Schools PFI	Total
	£000	£000	£000
Balance outstanding at *1 April 2010*	20,439	15,145	35,584
New operational assets	-	-	-
Use of prepayment reserve	-	-	-
Lease repayment	(794)	(371)	(1,165)
Balance outstanding at *31 March 2011*	**19,645**	**14,774**	**34,419**

Deferred Liabilities

Deferred Liabilities represent the value of outstanding liabilities in respect of S106 Contributions, Department of Education Grants and other long-term liabilities/contribution towards on-going projects, which will be written out of the accounts following implementation of various on-going projects.

	2009/10	**2010/11**
Description	**£000**	**£000**
The Department for Education Grants	8,041	15,964
Bexhill BSF - Grant	8,803	248
S106 Contributions	7,359	6,978
ESCC Contributions	5,904	3,553
Other Grants	4,923	5,558
	35,029	**32,301**

42. Impairment and Revaluation Losses

To determine if there has been any material downward valuation in assets, the Council revalued those properties, which are not currently due for revaluation, and the Council has recognised an impairment including revaluation loss reversal of £24.6m in relation to its land and building, including Schools. Bexhill Hill School attracted the main revaluation loss, which is in the region of £15m. The revaluation losses made to the Comprehensive Income and Expenditure Statement in 2010/11 are Education & Children's £21.9m, Highways and Transport £0.6m, Adult Social Care £1.7m, and Non Distributed Costs £0.4m. The recoverable amount of the assets have been reduced to their value in use, which was determined by assessing how much the Council would have to pay to acquire the service potential of the assets that is actually now capable of being used. Amount charged to service revenue accounts for the use of assets (depreciation) in 2010/11 is £38.8m.

43. Termination Benefits

The Council terminated the contracts of a number of employees during 2010/2011, including liabilities of £3.5m (£2.5m in 2009/2010). None of this total was in respect of compensation for loss of office for any Director, but enhanced pension benefits for 3 years augmentation with a cost to the Council of £196k applied in respect of the former Chief Executive as disclosed in Note 34. The termination payments were in respect of 303 employees (255 for 2009/2010) from various departments who were made redundant as part of the Council's rationalisation of the Service and voluntary termination of employment scheme.

The Council normally offers both voluntary early retirement and voluntary redundancy as part of organisational restructures undertaken in accordance with the Managing Change Suite of Policies. This voluntary mutually agreed termination of employment scheme ('the Scheme') is a one off invitation to Council employees, who are not currently part of an organisational restructuring exercise that will result in redundant posts, to apply for voluntary severance. The Scheme ran for a limited period 16/12/10 to 31/01/11 in order to help the Council reach its cost reduction targets for the year 2011/12 and to minimise the need for compulsory redundancies in the future.

44. Pensions Schemes Accounted for as Defined Contribution Schemes

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

In 2010/11, the Council incurred a total of £18.8m payable to the Teachers' Pension Agency in respect of teacher's pension costs, which represents 14.1% of teacher's pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increase. These amounted to £3.1m (£2m in 2009/10, increase due to more retirements), representing 2.33% of pensionable pay. These figures compare to an amount of £18.3m payable in 2009/10 (14.1% of pensionable pay), and £2.0m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, the Agency uses a notional fund as the basis for calculating the employer's contribution rate. However, it is not possible to identify the Council's share of the underlying liabilities of the scheme for its own employees. For the purposes of these accounts, it is therefore accounted for as a defined contribution scheme. The Council is responsible for the costs of the 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 2011, the Council owed £2.3m to the Teachers' Pension Agency for employers and employees' contributions to the Teachers' Pension Scheme.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 43.

45. Defined Benefits Pension Schemes

Participation in Pension Schemes

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

The Statement of Accounting Policies explains that the Council participates in two schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. The Teachers' Pension Scheme is administered nationally, and the Comprehensive Income and Expenditure Statement (CIES) contain actual contributions made to the scheme. The Local Government Scheme is administered through the East Sussex Pension Fund, and in addition, the 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 Council, rather than those of the Pension Fund. The quoted securities held as assets in the defined benefits pension scheme are now valued at bid price rather than mid-market value.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the contributions made in the year, so the real cost of retirement benefits is reversed out through the General Fund via the Movement in Reserves Statement and the contributions made in the year are included. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2009/10 £000	2010/11 £000
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- Current Service Cost	15,832	29,907
- Past Service Cost	2,599	(112,774)
- Settlements and Curtailments	2,737	2,310
Financing and Investment Income and Expenditure:		
- Interest Cost	53,330	62,650
- Expected Return on Scheme Assets	(33,535)	(50,445)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**40,963**	**(68,352)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- Actuarial gains and losses	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**40,963**	**(68,352)**
Movement in Reserves Statement		
Actual amount charged against the County Fund Balance for pensions in the year:		
- Employers' contributions payable to scheme	32,528	33,858
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(40,963)	68,352
Net Movement on the County Fund Balance	**(8,435)**	**102,210**

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial gains and losses of £185.9m (-£244.9m in 2009/10) were included in the Movement in Reserves Statement. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2010/11 is a loss of £184.9m (£370.7m in 2009/10)

Assets and Liabilities in Relation to Post-employment Benefits

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

	2009/10 £000	2010/11 £000
Liabilities 1 April:	**770,568**	**1,224,665**
Current Service Cost	15,832	29,907
Interest Cost	53,330	62,650
Contributions by scheme participants	9,262	9,384
Actuarial gains and losses	397,171	(82,307)
Past Service Cost	2,599	(112,774)
Losses/Gains on Curtailments	2,737	2,310
Settlements	-	-
Liabilities Assumed in a Business Combination	7,234	-
Estimated Unfunded Benefits Paid	(4,907)	(4,785)
Estimated Benefits paid	(29,161)	(33,669)
Liabilities 31 March:	**1,224,665**	**995,381**

Reconciliation of fair value of the scheme assets:

	2009/10	2010/11

	£000	£000
Assets 1 April	**507,975**	**708,728**
Expected rate of return	33,535	50,445
Contributions by scheme participants	9,262	9,384
Employer contributions	27,621	29,073
Contributions in respect of unfunded benefits	4,907	4,785
Actuarial gains and losses	152,262	3,555
Assets Assumed in a Business Combination	7,234	-
Settlements	-	-
Unfunded benefits paid	(4,907)	(4,785)
Benefits paid	(29,161)	(33,669)
Assets 31 March	**708,728**	**767,516**

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 £49.175m (2009/10: £185.8m).

Scheme History

	2005/06*	**2006/07** As restated	**2007/08** As restated	**2008/09**	**2009/10**	**2010/11**
	£000	£000	£000	£000	£000	£000
Present Value of Liabilities: Local Government Pension Scheme	(757,770)	(819,477)	(779,008)	(770,568)	(1,224,665)	(995,381)
Fair value of assets in the Local Government Pension Scheme	602,480	647,564	609,195	507,975	708,728	767,516
Deficit in the scheme: Local Government Pension Scheme	**(155,290)**	**(171,913)**	**(169,813)**	**(262,593)**	**(515,937)**	**(227,865)**

* The Council has elected not to restate fair value of scheme assets for 2005/06 as permitted by IAS 19.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £995.4m (£1,224.7m in 2009/10) has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £227.9m (£515.9m in 2009/10).

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government Scheme will be made good by increased contributions over 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 Council in the year to 31 March 2012 is £26.3m. This excludes items that cannot be fairly estimated in advance such as past service cost, losses/ (gains) on curtailments and settlements, etc.

Based on the current benefits structure of the Local Government Pension Scheme (LGPS), and using the roll forward model, the actuarial estimate of the present value of funded liabilities is approximately £372.6m, £146.6m and £402.6m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2011. There is also a liability of approximately £42.2m in respect of LGPS unfunded pensions and £37.9m in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

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, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	2009/10	**2010/11**
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.8%	7.8%

Bonds	5.0%	4.9%
Property	5.8%	5.5%
Cash	4.8%	4.6%
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	20.8 Years	
Women	24.1 Years	
Longevity at 65 for future pensioners		
Men	22.3 Years	
Women	25.7 Years	
Rate of inflation/Pension Increase Rate	3.8%	2.8%
Rate of increase in salaries	5.3%	5.1%
Expected Return on Assets	7.1%	6.9%
Rate for discounting scheme liabilities	5.5%	5.5%

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

	31 March 2010	31 March 2011
	%	%
Equity investments	74	78
Bonds	5	8
Property	7	8
Cash	14	6
Total	**100**	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

Cumulative Actuarial Gains and Losses	2005/06*	2006/07	2007/08	2008/09	2009/10	2010/11
		As restated	As restated			
	£000	£000	£000	£000	£000	£000
Actuarial Gain/(Losses) on Plan Assets	294	304	(85,837)	(151,141)	152,262	3,555
Actuarial Gain/(Losses) on Obligations	-	44,303	82,178	64,007	(397,171)	182,307
Actuarial Gain/(Loss) Recognised	294	44,607	(3,659)	(87,134)	(244,909)	185,862
Cumulative Actuarial Gains and Losses	**(79,652)**	**(35,045)**	**(38,704)**	**(125,838)**	**(370,747)**	**(184,885)**

At 31 March 2011, the Council owed £3,021,555 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 2010, can be found on pages 111 to 124.

46. Contingent Liabilities

Following a complaint to the European Commission about compliance with EU procurement rules in the 5 year extension of the Integrated Waste Management Services PFI contract with South Downs Waste Services Limited (Veolia), the Council declared a contingent liability for 2009/10. The contract is jointly let with Brighton & Hove City Council who made the same disclosure. The Commission sought responses from the Councils and the Government. On the basis of the information and arguments put forward, The Commission has decided to close the case against all parties as declared on their website on 3rd June 2010. This contingent liability is therefore no longer required. Brighton & Hove City Council has also made this disclosure in their accounts.

Newhaven Village Green - In December 2007, the Council received an application to register land known as West Beach, Newhaven as a town or village green. West Beach is a tidal beach at the mouth of Newhaven harbour bordered by the sea, a stone wall, and harbour arm. The Council held a non-statutory public inquiry presided over by an independent inspector who concluded that the land should be registered as a town or village green. Upon the Panel making their decision the Landowner challenged the decision and the Council have instructed Counsel on the matter and have responded to the claim. We are currently waiting for the High Court to confirm whether they will hear the matter.

Equal Pay Employment Tribunal Claims – four Equal Pay claims have been lodged against the Council drawing a comparison with Construction Technicians and Assistant Construction Technician posts in the Economy, Transport & Environment department. In addition, a collective grievance has been lodged on behalf of twenty two individuals from a range of occupational groups, including Home Care Support Workers and a range of Schools based posts such as Teaching Assistants, Secretaries, and Bursars etc. Discussions with the trades unions with a view to reaching a settlement have taken place but are currently stayed pending a date being scheduled by the Tribunal to hear the Equal Pay cases. It is not possible at this stage to assess the financial implications of any potential settlement.

47. Contingent Assets

There are two contingent assets, for claiming compound interest from HMRC, which have been lodged at the High Court for a sum in excess of £300,000. The first claim is on hold pending the outcome of the Littlewoods case, which is likely to be referred to the European Court of Justice. The second claim, regarding VAT paid on off-street car parking charges, has been lodged with the First Tier Tribunal (Tax) for £45,014 for a refund of tax. The claim is on hold pending a judgement on the Isle of Wight Council and other such cases. The Littlewoods case has been referred to the European Court of Justice which means a wait of up to 2 years for the outcome and the Isle of Wight case is due to be heard by the First Tier Tribunal (Tax) later this year but no date has been given.

48. Nature and extent of risks arising from Financial Instruments

Key Risks

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

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

Overall Procedures for Managing Risk

The 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 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 Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The 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 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 Council's financial instrument exposure. Actual performance is also reported annually to Members.

The annual treasury management strategy which incorporates the prudential indicators was approved by Full Council on 9 February 2010 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2010/11 was set at £352 million. This is the maximum limit of external borrowings or other long term liabilities;

- The Operational Boundary was expected to be £332 million. This is the expected level of debt and other long term liabilities during the year;

- The maximum amounts of fixed and variable rate interest rate exposure were set at 100% based on the Council's net debt;

- The maximum and minimum exposures to the maturity structure of debt are shown under the Refinancing and Maturity Risk section of this note.

These policies are implemented by a central treasury team. The 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 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 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 number of times during 2008/09 and 2010/11.

Whilst the recent credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. The credit criteria in respect of financial assets held by the authority at 31 March 2011 are detailed below:

- Up to £60 million maximum, deposited for a period up to one year only, with any of the following up to the individual limit of £40 million – Barclays, Lloyds HBOS, Nat West/RBS, Santander UK, HSBC, Nationwide, Individual AAA rated Treasury Type Money Market Funds, Individual AAA rated Cash Type Money Market Funds;

- Only Banks which are eligible for the Government's Credit Guarantee Scheme and meet the following minimum rating criteria for at least two of the designated agencies to be used

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

- The policy retains the ability to revert to some or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tighten.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £179.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

The Council has no exposure to credit risk on other financial assets such as bonds.

No breaches of the Council's counterparty criteria occurred during the reporting period. In October 2008, the Icelandic banking sector defaulted on its obligations but the Council had no funds invested in this sector. All the Council's deposits are made through the London Money Markets. As at 31 March 2011, the Council's investments included £179.6m with UK banks, with no investments in non-UK banks. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The following analysis summarises the Council's maximum exposure to credit risk. The table, with composite defaults from Fitch, Standard & Poors and Moody's credit rating agencies, gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2009. The details shown are by long term category on investments out to one year which are the most commonly held investments during the year.

	Amount as 31 March 2011	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
	a	b	c	(a * c)
Deposits with banks and financial institutions				
AAA rated counterparties	19,050	0.00%	0.00%	-
AA rated counterparties	160,500	0.03%	0.03%	48
A rated counterparties	-	0.08%	0.08%	-
BBB rated counterparties	-	0.24%	0.24%	-
Total	**179,550**			**48**
Trade Debtors	13,214	0.00%	0.00%	-
Total	**192,764**			**48**

The Council does not generally allow credit for its customers, however £13.2m in 2010/11 (£10.2m 2009/10) is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2010	31 March 2011
	£000	**£000**
Less than three months	6,819	9,716
Three to five months	358	1,818
Five months to one year	1,139	805

More than one year	1,883	875
Total	**10,199**	**13,214**

Liquidity risk –

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

The 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 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.

The maturity analysis of financial assets is as follows:

	2009/10	2010/11
	£000	£000
Less than one year (current assets)	226,901	232,835
Between one and two years	1,100	1,200
Between two and three years	1,200	1,300
More than three years	20,780	27,255
	249,981	**262,590**

Refinancing and Maturity Risk –

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

The approved 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 Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of financial liabilities, including the minimum and maximum limits for fixed interest rates maturing in each period, is as follows:

	Approved Minimum	Approved Maximum	2009/10	2010/11

	Limit	Limit		
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	96,808	97,899
Between one and two years	0%	40%	1,883	1,657
Between two and five years	0%	60%	5,124	24,040
Between five and ten years	0%	80%	10,363	31,711
More than ten years	0%	80%	257,310	214,272
			371,488	**369,579**

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

Market risk

Interest rate risk – The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect in 2010/11 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	1,796
Impact on Comprehensive Income and Expenditure	1,796
Increase in Government grant receivable for financing costs	-

Impact on other Comprehensive Income and Expenditure	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on surplus or deficit on Provision of Services or other Comprehensive Income and Expenditure)	-

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £1.80 million (£1.59 million at 31 March 2010) represents the immediate impact on the 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 Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

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

49. South Downs Joint Committee

The parties to the agreement were the Natural England, the County Councils of East Sussex, Hampshire & West Sussex, the unitary council of Brighton & Hove City and the Borough and District Councils of Adur, Arun, Chichester, Eastbourne, East Hampshire, Horsham, Lewes, Mid Sussex, Wealden, Worthing and Winchester City Council. The parties had 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 Sussex Downs and East Hampshire Areas of Outstanding Natural Beauty by establishing and supporting a joint committee for this purpose.

The Joint Committee was wound up on 31 March 2011 when it was superseded by the South Downs National Park Authority. The reserve balance, after transferring earmarked reserves to those bodies taking over projects or activities, and adjusting for post balance sheet transactions, will be distributed to the member parties on the basis of net contributions over the previous two complete financial years.

Total expenditure for 2010/11 was met partly by £2.230m of funding by the constituent parties of which the Council contributed £249,100 (11.18%).

50. Trust Funds

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

The term ‘trust fund’ includes money held on behalf of individuals, such as Social Services clients. In these cases, the holding is virtually a personal bank account and is not invested by the Council. The 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:

	2009/10	2010/11		
	Opening Balance £000	Income in Year £000	Expenditure £000	Closing Balance £000
Sole trustee funds				
Music Trust	707	2	(16)	693
Robertsbridge Youth Centre	102	1	-	103
Lewes Educational Charity	42	7	(3)	46
How Scholarship	3	-	-	3

Wright Legacy	2	-	-	2
Total sole trustee funds	856	10	(19)	847
Ashdown Forest Trust	1,405	71	(71)	1,405
General trust funds	118	1	(55)	64
Bequests	119	-	-	119
Voluntary funds	13	5	(7)	11
Comforts funds	35	9	(26)	18
Safe Custody	52	26	(21)	57
Total trust funds	**2,598**	**122**	**(199)**	**2,521**

51. Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital Under Statute 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 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, is deferred over a number of years. In 2010/11, £5,242,590 of the Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 9), and all was written off in the year the expenditure was incurred.

52. Investments

The 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 £880,001 as at 31 March 2011. The legal liability of the 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.

53. Area Based Grant (ABG)

From April 2008, 36 former specific grants were grouped together as a new Area Based Grant (ABG). ABG 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, and for the Council is currently as follows:

Policy Area	**2008/09 £000**	**2009/10 £000**	**2010/11 £000**
Adult Social Care	10,697	10,630	21,842
Governance and Community Services	860	872	906
Children's Services	10,368	11,615	9,255
Transport & Environment	1,792	2,007	1,744
Total Area Based Grant	**23,717**	**25,124**	**33,747**

Government guidance on ABG indicates that it 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 on services when calculating the 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 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.

54. Landfill Allowance Trading Scheme

In order to reduce the amount of biodegradable waste (for example, kitchen and garden waste, paper and card) going to landfill, the government has issued tradable landfill allowances to waste disposal authorities to allow them to landfill a reducing number of tonnes for each year from 2005/06 to 2019/20. DEFRA have announced during 2010/11 that they are uncertain as to whether the scheme will continue, and has indicated that 2012/13 is likely to be the final year of the scheme.

The allowances are reflected at fair value and are subsequently re-valued each financial year. The fair value of the asset can be reliably measured by using evidence of the market value of the same or similar assets.

The Council has valued the allowances for 2010/11 at £10.60 each based on trading activities between Local Authorities during 2010/11. The Council's allocation for 2010/11 was 90,671 tonnes, valued at £0.961m. An estimated 75,060 tonnes were actually landfilled (£0.796m), leaving 15,611 (£0.166m) surplus allowances in 2010/11. These surplus permits can be carried forward to be used in 2011/12. Additionally, the Council is able to trade these surplus permits with other local authorities. Authorities that landfill more than their permitted allowance can either purchase additional allowances from other waste disposal authorities or pay to the government a financial penalty of £150 per tonne.

Because 2009/10 was a target year under the scheme, the Council was required to write off its surplus of 2009/10 permits. This has reduced the value of the waste reserve by £0.613m.

55. Heritage Assets

East Sussex Record Office holds the historic and administrative archives for the County of East Sussex and, under an SLA agreement, for the City of Brighton & Hove. These comprise some five miles of records dating from 1101 to the present and they are held for the express purpose of ensuring their preservation and providing public access to information recording the County and City's heritage. The archives, ranging from a single piece of paper to thousands of documents, are held by the Council under a variety of terms, the most common ones being deposit (long-term loan), gift, or purchase. The majority of archives held by the Council are on deposit. No attempt has been made to assign a cash or insurance value to this irreplaceable historical and cultural heritage, although in cases where the archives have been purchased, records of their saleroom value at the time may exist. Obtaining a valuation of all the owned assets for 2010/11 Accounts would be a lengthy, resource intensive and costly exercise.

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. New regulations came into force on 1 April 2008 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 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 66 participating employers. A full list of participating employers is given in note 9.

Fund Account for Year Ended 31 March 2011
Dealings with Members, Employers and Others directly involved in the Scheme.

31 March 2010				31 March 2011	
£000	£000			£000	£000
		Contributions	**Notes**		
76,762		From Employers	10	77,592	
26,669	103,431	From Employees or Members		27,728	105,320
	9,845	**Transfers in**			8,339
	113,276				**113,659**
	89,057	**Benefits**	10		90,488
	8,231	Payments to and on account of leavers			9,820
	1,384	Administrative expenses	14		1,417
	98,672				**101,725**
	14,604	Net Additions / (Withdrawals) from dealings with members			**11,934**
		Returns on investments			
	13,582	Investment income	6		21,164
	460,919	Change in market value of Investments			107,813
	(447)	Taxes on Income			(486)
	(3,227)	Investment management expenses	14		(5,723)
	470,827	Net returns on investments			**122,768**
	485,431	Net Increase / (Decrease) in fund during the year			134,702
	1,381,987	Add Opening Net Assets of the scheme			1,867,418
	1,867,418	Closing net assets of the scheme			**2,002,120**

Net Assets Statement as at 31 March 2011

2009/10 £000	2009/10 £000			Notes	2010/11 £000	2010/11 £000
		Investment assets				
-		Fixed interest securities	- Public Sector	7	-	
95,822	95,822		- Other		132,623	132,623
135,553		Equities Segregated	- UK		133,752	
257,109			- Overseas		504,353	
82,418	475,080	Unlisted	- Overseas		105,580	743,685
-		Index Linked Securities	- Public Sector		-	
-	-		- Other		46,979	46,979
		Pooled Investment Vehicles				
165,097		Unit Trusts	- Property		173,175	
808,125			- Equities		735,467	
36,216	1,009,438	Partnerships	- Infrastructure		38,762	947,404
	284,568	Cash deposits				123,623
	10,067	Other Investment balances				55,683
	1,874,975					**2,049,997**
	(11,717)	**Investment liabilities**		11		(54,337)
	8,153	**Current assets**				8,850
	(3,993)	**Current liabilities**				(2,390)
	1,867,418					**2,002,120**

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 2010/11.

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 2011.

Sean Nolan
Director of Corporate Resources

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, for setting the investment policy and reviewing 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. The County Council hosts 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 a Statement of Investment Principles (S.I.P). 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 East Sussex Fund's consolidated S.I.P. includes the Funding Strategy Statement (FSS) and all other Policies issued by the East Sussex Fund.

The Code of Myners Principles will also be included in the S.I.P. LGPS administering authorities are required to prepare, publish, and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure, and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the original ten Myners principles.

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 quarterly valuations of the scheme's 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 the 2010/11 Code of Practice on Local Authority Accounting in the UK. 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 27 to 41. The points, which specifically 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 as at 31 March 2011. 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'
- Broker's commissions and other costs of acquisition are included in the cost of investments purchased.

3. Actuarial Statement

The latest actuarial valuation of the Fund was carried out as at 31 March 2010. 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 2010 valuation shows the Fund has a past service deficit, being 87% funded in respect of past liabilities. This compares with 89% funded at the 2007 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 in deficit. This places the East Sussex Pension Fund, at 87% funding, as best funded out of the 34 County Council 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 2010/2011 are shown at note 9.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £2,141 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £272 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 30 March 2011.

The liabilities were assessed using an accrued benefits method, which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	**31 March 2010**	
	% p.a. Nominal	**% p.a. Real**
Discount rate	6.1%	2.7%
Pay increases *	5.3%	0.8%
Price inflation/Pension increases	3.3%	-

In line with IAS26 requirements, CIPFA's Code of Practice on Local Authority Accounting 2010/11 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010/11.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are various options for the presentation of the actuarial present value of promised retirement benefits in pension fund accounts, and the preferred option for East Sussex, as administering authority is to disclose as a note to the accounts.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the Code of Practice. These can be found at the end of this report.

Balance sheet

Year Ended	31 March 2011 £m	31 March 2010 £m
Present Value of Promised Retirement Benefits	2,303	2,508

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate the liability at 31 March 2011 comprises £967m in respect of employee members, £386m in respect of deferred pensioners and £949m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

Financial assumptions
My recommended financial assumptions are summarised below:

Year Ended:	31 March 2011 % p.a	31 March 2010 % p.a
Inflation / Pension Increase Rate	2.8%	3.8%
Salary Increase Rate*	5.1%	5.3%
Discount Rate	5.5%	5.5%

*Salary increases at 31 March 2011 are 1% p.a. nominal for the year to 31 March 2012, reverting to 5.1% p.a. thereafter.

Mortality
Life expectancy is based on the Fund's VitaCurves with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.3 Years	23.4 Years
Future Pensioners	23.3 Years	25.7 Years

*Future pensioners are assumed to be currently aged 45

Historic mortality
Life expectancies for the below year ends are based on the PFA92 and PMA92 tables. The allowances for future life expectancies are shown in the table below.

Year Ended	Prospective Pensioners	Pensioners
31-Mar-10	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007

Age ratings were applied to the above tables based on membership profile.

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

Richard Warden
Hymans Robertson LLP
May 2011

4. Fund Managers

The market value (at Bid) of the investments as at 31 March 2011 which were under the management of fund managers and the proportion managed by each manager:

Manager	2010		2011	
	£m	**%**	**£m**	**%**
Prudential M&G	125.8	6.7	74.5	3.7
UBS	11.0	0.6	0.3	0
Capital	19.4	1.0	-	-
Fidelity	438.1	23.5	318.1	15.9
Harbourvest	35.1	1.9	46.2	2.3
Adams Street Partners	47.7	2.6	53.4	2.7
Northern Trust Cash	235.6	12.6	85.7	4.3
Legal & General	741.3	39.8	463.6	23.3
Prudential Infracapital	21.7	1.2	23.9	1.2
UBS Infrastructure	14.9	0.8	14.9	0.8
M&G UK Financing Fund	-	-	5.9	0.3
Schroders	174.3	9.3	184.7	9.3
Lazard	-	-	289.0	14.5
Marathon	-	-	103.4	5.2
Ruffer	-	-	133.9	6.7
Newton	-	-	138.7	6.9
M&G Absolute Return Bonds	-	-	58.1	2.9
Total	**1,864.9**	**100.0**	**1,994.3**	**100**

The overall annual rate of return achieved by the Fund is 7.1% compared with the WM Universe return of 8.2%.

5. Analysis of Investments

Description	31 March 2010	(of which unquoted)	31 March 2011	(of which unquoted)
	£m	**£m**	**£m**	**£m**
UK	1,175.2	(36.2)	1,090.0	(38.7)
Foreign	689.7	(82.4)	904.3	(105.6)
	1,864.9	**(118.6)**	1,994.3	**(144.3)**
Other Investment balances	10.1	-	55.7	-
	1,875.0	**(118.6)**	**2,050.0**	**(144.3)**

The split between the Fund's overseas and UK denominated assets has been estimated based on several assumptions. The allocations between UK and overseas holdings within the Fund's pooled investments were provided by the pooled fund managers and used to estimate a broad split for these holdings. The splits for the segregated holdings have been estimated using the custodian's records and the managers reported allocations. It has not been possible to obtain an accurate split for the Fund's private equity and infrastructure mandates due to the nature of the assets, so it has been assumed that these are overseas investments with the exception of the M&G Infracapital fund, which is assumed to be a UK investment. The overall split does not account for the impact of any currency hedging implemented by the managers.

Largest Holdings

Name	Investment Type	£m	%
Legal & General UK Equity Index	Unit Trust Equity (Passive)	288.6	14.4
Newton Real Return (Pooled Fund)	Absolute Return	138.7	6.9
Marathon (Pooled Fund)	Global Equities	103.4	5.1

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

6. Investment Income Table

	2009/10 £000	2010/11 £000
Income From Fixed Interest Securities	112	1,600
Dividends from Equities	10,369	14,948
Income from index linked securities	-	458
Income from pooled investment vehicles	1,731	2,623
Commission Recapture	8	3
Interest on cash deposits	796	923
Income from Class Actions	119	123
	13,135	**20,678**
Irrecoverable Withholding tax	447	486
Total Investment Income	**13,582**	**21,164**

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 £1.679m (£1.322m 2009/10). 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 2009/10 £000	Purchases at cost & Derivative Payments £000	Sales Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 2010/11 £000
Fixed Interest Securities	95,822	32,674	(1,040)	5,167	132,623
Equities	475,080	841,139	(609,177)	36,643	743,685
Index Linked Securities	-	72,410	(26,540)	1,109	46,979
Pooled Investment Vehicles	1,009,438	791,831	(918,128)	64,263	947,404
	1,580,340	**1,738,054**	**(1,554,885)**	**107,182**	**1,870,691**
Cash Deposits	284,568			(1929)	123,623
Other Investment balances	10,067			1,560	55,683
	1,874,975			**107,813**	**2,049,997**

	Value £000	Value £000
Fixed Interest Securities	**2009/10**	**2010/11**
UK Public Sector Quoted	-	-
UK Corporate Quoted	95,822	132,623
Overseas Corporate Quoted	-	-
	95,822	**132,623**
Equities	**2009/10**	**2010/11**
UK Quoted	135,553	133,752
UK Unquoted	-	-
Overseas Quoted	257,109	504,353
Overseas Unquoted	82,418	105,580
	475,080	**743,685**

Index Linked Securities	2009/10	2010/11
UK Public Sector Quoted	-	20,119
Overseas Public Sector Quoted	-	26,860
	-	**46,979**

Pooled Investment Vehicles		2009/10	2010/11
UK Unit Trusts	-Property	165,097	173,175
	-Other	808,125	735,467
Partnerships	-Infrastructure	36,216	38,762
		1,009,438	**947,404**

Cash Deposits	2009/10	2010/11
Sterling	282,602	109,907
Foreign Currency	1,966	13,716
	284,568	**123,623**

Investment Assets (Other Investment Balances)

	2009/10	2010/11
	£000	**£000**
Sales inc currency	7,820	52,959
Investment Income Due	1,289	2,222
Recoverable Taxes	950	499
Managers' Fees rebate	8	3
Total	**10,067**	**55,683**

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 without disturbing the underlying assets.

Derivative Contracts	31 March 2010	31 March 2011
	£000	£000
UK Fixed Income Futures	-	-
Overseas Fixed Income Futures	-	-
Options	-	302
	-	**302**

9. Authorities in the Fund

	Contribution Rates		
	2010/11	2011/12	
	%	%	£000*
Administering Authority			
East Sussex County Council	18.1%	18.4%	-
Scheduled Bodies			
Brighton & Hove City Council	17.0%	17.3%	-
Battle Town Council	18.6%	18.9%	-
Bexhill 6th Form College	15.5%	15.8%	-
Brighton Aldridge Community Academy	-	17.4%	-
Brighton Hove & Sussex 6th Form College	15.5%	15.8%	-
Camber Parish Council	-	18.9%	-

Chailey P C	18.6%	18.9%	-
Chiddingly Parish Council	18.6%	18.9%	-
City College Brighton	16.8%	17.1%	-
Conservators of Ashdown Forest	18.6%	18.9%	-
Crowborough Town Council	18.6%	18.9%	-
East Sussex Fire & Rescue Service	18.4%	18.4%	-
Eastbourne Academy	-	18.9%	-
Eastbourne Borough Council	21.2%	21.5%	-
Forest Row Parish Council	18.6%	18.9%	-
Hailsham Town Council	18.6%	18.9%	-
Hastings Borough Council	20.8%	21.1%	-
Heathfield & Waldron Parish Council	18.6%	18.9%	-
Hurst Green Parish Council	-	18.9%	-
Lewes District Council	19.5%	19.8%	-
Lewes Town Council	18.6%	18.9%	-
Maresfield Parish Council	18.6%	18.9%	-
Newhaven Town Council	18.6%	18.9%	-
Peacehaven Town Council	18.6%	18.9%	-
Plumpton College	15.5%	15.8%	-
Polegate Town Council	18.6%	18.9%	-
Ringmer Parish Council	18.6%	18.9%	-
Rother District Council	22.7%	23.0%	-
Rye Town Council	18.6%	18.9%	-
Seaford Town Council	18.6%	18.9%	-
Sussex Coast College	16.0%	16.3%	-
Sussex Downs College	14.5%	14.8%	-
Sussex & Surrey Probation Board	20.0%	20.0%	-
Sussex Inshore Fisheries	18.6%	18.9%	-
Telscombe Town Council	18.6%	18.9%	-
Uckfield Town Council	18.6%	18.9%	-
University of Brighton	15.7%	16.0%	-
Valuation Tribunal	18.6%	18.9%	-
Varndean 6th Form College	15.5%	15.8%	-
Wealden District Council	20.4%	17.5%	369
Willingdon & Jevington Parish Council	18.6%	18.9%	-
Admitted Bodies			
Amicus Horizon	-	17.5%	203
Brighton Dome & Festival Limited	-	24.1%	2.5
Care Quality Commission	20.7%	20.7%	-
Convex Leisure	13.7%	18.7%	-
Crime Reduction Initiatives	21.3%	0.0%	-
De La Warr Pavillion Trust	17.6%	18.7%	-
Eastbourne Homes	17.0%	17.0%	-
Eastbourne Leisure Trust (Serco)	9.0%	10.5%	-
European Electrique Ltd	-	21.4%	-
Freedom Leisure	13.9%	0.0%	-
Hove & Portslade Citizens Advice Bureau	21.5%	21.5%	-
Jarvis Workspace FM	19.8%	0.0%	-
May Gurney	18.8%	19.5%	-
Mears Ltd	-	20.6%	-
My Time	-	18.0%	-
RBLI	15.8%	17.0%	-
SEERA	13.1%	0.0%	-
Sussex Archaeological Society	19.0%	0.0%	-
Sussex County Sports Partnership	15.8%	15.8%	-
Sussex Housing And Care	19.0%	19.3%	-
University of Sussex	19.0%	24.0%	41

Wave Leisure	13.8%	14.4%	-
Wealden & Eastbourne LifeLine (WELL)	16.6%	17.2%	-
Wealden Leisure Ltd	-	14.9%	-

* Contributions expressed as a percentage of payroll and monetary amounts should be paid into East Sussex Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Notes: Changes to contributions have been phased in over a three year period. Contributions expressed as a percentage of payroll and monetary amounts will be paid into East Sussex Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations. Further sums should be paid into the Fund to meet the costs of any non-ill health early retirements. These will be paid either:

a) by an additional 1% of pensionable pay (for those employers who have taken up this option); or

b) using methods and factors issued by the actuaries from time to time.

Further sums should be paid to the Fund to meet the costs of any augmentation (i.e. additional membership or additional pension) using methods and factors issued by me from time to time, or GAD guidance if I consider it to be appropriate. In addition, further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements, non-ill health early retirements or augmentation that exceed those included within actuaries assumptions. The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

(1) Hurst Green Parish Council joined the Fund on 1 June 2011.

Further comments - Stabilisation

The stability overlay mechanism described in section entitled 'Employer contributions payable' is used to set the contribution rates for certain employers in the Fund. These employers are long term open employers in the Fund which the administering authority has classified as 'stabilised employers', (i.e. scheduled bodies, open community admission bodies, colleges and open pre-2000 admission bodies).

The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2011 is detailed below -

	31 March 2010	31 March 2011
Contributors	21,384	21,430
Pensioners	14,247	15,027
Deferred Members	18,512	19,845

Transfer of Surrey Probation Staff to East Sussex Pension Fund

All employees of Surrey Probation, a scheme employer in the Surrey Pension Fund, transferred to the Surrey and Sussex Probation Board on 1st April 2010 and now participate in the East Sussex Pension Fund. As at June 2011, negotiations are still ongoing with the Actuaries from Hymans Robertson to agree the bulk transfer into the East Sussex Pension Fund.

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	2009/10 £000	2010/11 £000
Employers' Normal	(62,089)	(61,768)
Deficit funding	(13,407)	(13,416)
Augmentation	(1,266)	(2,408)
Members' Normal	(26,669)	(27,728)

Total	**(103,431)**	**(105,320)**

Benefits Payable

	2009/10 £000	2010/11 £000
Pensions	64,281	67,687
Commutations & Lump Sums	22,882	21,235
Lump Sum Death Benefits	1,894	1,566
Total	**89,057**	**90,488**

	2009/10		2010/11	
	Contributions Receivable £m	Benefits Payable £m	Contributions Receivable £m	Benefits Payable £m
Administrative Authority	38.4	34.4	40.0	36.1
Scheduled Bodies	60.9	52.6	62.3	52.1
Admitted Bodies	4.1	2.1	3.0	2.3
	103.4	**89.1**	**105.3**	**90.5**

Payments to & on account of leavers

	2009/10 £000	2010/11 £000
Refunds of Contributions	24	65
Individual Transfers out to other schemes	8,207	9,755
Total	**8,231**	**9,820**

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2010/11, some members of the pension scheme paid voluntary contributions and transfers in of £1.394m to Prudential to buy extra pension benefits when they retire. £2.425m was disinvested from the AVC provider in 2010/11. (£1.853m 2009/10) 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 2011 was £15.844m (2009/10 £16.150m).

11. Assets & Liabilities

	2009/10 £000	2010/11 £000
Investment Liabilities (Other Investment Balances)		
Purchases inc currency	11,235	52,943
Managers' Fees	482	1,394
Total	**11,717**	**54,337**
Current Assets		
Contributions (Ers & Ees)	7,593	7,807
Other Current Assets	560	1,043
Total	**8,153**	**8,850**

Current Liabilities		
Pension Payments (inc lump sums)	2,853	1,317
Cash Balances (owed to ESCC)	483	1,041
Professional Fees	71	20
Other Current Liabilities	586	12
Total	**3,993**	**2,390**

12. Contingent Liabilities and Assets

At 31 March 2011, the Fund has contractual commitments of £228.3 million to private equity funds managed by Adams Street and Harbourvest. The Fund has also committed £22.5 million to the M&G UK Companies Financing Fund and £56.8m to the infrastructure funds managed by UBS and M&G. The property manager, Schroders, had also made commitments of £21.25m within its mandate.

At 31 March 2011, the unfunded commitment was £122.4 million for private equity, £16.6m for the M&G UK Companies Financing Fund and £15.1m for infrastructure. The commitments are paid over the investment timeframe 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 £40.0 million in respect of the private equity partnerships at 31 March 2011. All figures expressed are based on relevant exchange rates as at 31 March 2011. The value of the funded commitment net of distributions in these funds at 31 March 2011 is included in the net asset statement.

Sussex Careers, a Community Admission Body previously in the Pension Fund, supplied careers advisory services on behalf of both ESCC and B&H CC. Sussex Careers has 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

The East Sussex Fund has not operated a Stock Lending Programme since 13th 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. For all but one of the external investment managers' 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. The exception to this fees basis is Marathon Asset Management who charges an annual performance fee. This performance fee will be calculated at the anniversary of the initial investment, which commenced in June 2010.

Total expenditure on scheme and investment management expenses during the year was £7.1 broken down as follows: Professional Fees £5.7m (inc £0.5m rebated fees) and Scheme Administration £1.4m.

Investment Management expenses	**2009/10 £000**	**2010/11 £000**
Investment Management & Custody fees	2,885	5,531
Performance Measurement Services	15	17
Other Advisory Services	327	175
Total	**3,227**	**5,723**

Administrative expenses	**2009/10 £000**	**2010/11 £000**
Administration & Processing	1,193	1,220
Actuarial Fees	111	128
Audit Fees	71	59
Legal & other Professional Fees	9	10
Total	**1,384**	**1,417**

15. Related Parties

Employer pension contributions paid by East Sussex County Council in 2010/11 amounted to £40.0m (£38.4m in 2009/10). Details of transactions with East Sussex County Council can be found in note 38 to the Accounting Statements. Other than those listed above in note 14 no material transactions took place in 2010/11 with related parties. During 2010/11, the Pension Fund had an average balance of £1.9m deposited with the County Council, which paid £17,719 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 38.

16. Audit Costs

The table below sets out the fees agreed with PKF (UK) LLP for services rendered during the year, and in line with the requirement for administrating authorities to produce a pension fund annual report 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.

	2009/10	**2010/11**
	£000	**£000**
Pension Fund Audit (PKF)	45	45
Total	**45**	**45**

Accounting Standards

A set of rules about how accounts are to be kept. By law, local authorities must follow "proper accounting practices" which are set out both in acts of parliament and in professional codes and statements of recommended practice.

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.

Accumulated Absences Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year

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.

Asset Register

A record of Council assets, including land and buildings, housing, infrastructure and vehicles, equipment etc., kept for the purposes of calculating capital charges to be made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals etc.

Bad Debt Provisions

Amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Balances

A working balance maintained as a cushion against unexpected expenditure during the year. It is the amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

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.

Collection Fund Adjustment Account

The difference between the income included in the Income and Expenditure account for Council Tax and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the County Fund Balance.

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 (CDC)

Corporate and Democratic Core (CDC) is defined as the two service divisions Democratic Representation and Management (DRM) and Corporate Management (CM).

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.

Corporate Management (CM)

Corporate management concerns those activities and costs that provide the infrastructure that allows services to be provided, whether by the authority or not, and the information that is required for public accountability. Activities that relate to the provision of services, even indirectly, are overheads on those services. There are no subdivisions recommended for CM.

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.

Democratic Representation and Management (DRM)

This includes all aspects of members' activities in that capacity, including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests. To give authorities maximum flexibility in reflecting their own constitutional arrangements, there are no recommended subdivisions of service.

Department for Environment, Food and Rural Affairs (Defra)

The Department for Environment, Food and Rural Affairs (Defra) is the government department responsible for environmental protection, food production and standards, agrculture, fisheries, and rural communities in the United Kingdom.

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.

External Auditors

The auditor appointed by the Audit Commission to carry out an audit of the Council's accounts. Currently this is the Operations Directorate of the Audit Commission, who has statutory responsibilities to ensure that:

- The Council's accounts are prepared in compliance with applicable statutory provisions;
- The Council has complied with the Best Value Accounting Code of Practice (BVACOP);
- The Council has observed proper accounting practices in compiling the accounts;
- The Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

Equities

Ordinary shares issued by companies.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The concept of fair value is used in many accounting standards including the IFRS covering acquisition, valuation of assets, and financial instruments, but it is not limited to these.

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.

FRAB

The Financial Reporting Advisory Board's (FRAB) role is to promote the highest possible standards in financial reporting by Government and to help to ensure that any adaptations of, or departures from, Generally Aaccepted Accounting Principles (GAAP) are justified and properly explained.

Government Grants

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

HM Revenue & Customs (HMRC)

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.

IASB

The International Accounting Standards Board (IASB) is an independent accounting standard-setter board and has responsibility for setting International Financial Reporting Standards

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.

IFRS

International Financial Reporting Standards

IFRIC

International Financial Reporting Issues Committee - The IFRIC reviews, on a timely basis within the context of current International Financial Reporting Standards (IFRSs) and the IASB Framework, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national committees.

IRR

The **internal rate of return** (IRR) on an investment or potential investment is the annualised effective compounded return rate that can be earned on the invested capital. In more familiar terms, the IRR of an investment is the interest rate at which the costs of the investment lead to the benefits of the investment. This means that all gains from the investment are inherent to the time value of money and that the investment has a zero net present value at this interest rate.

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 operating 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.

Prior Period Adjustments

Material adjustments that are applicable to prior years and which arise from changes in accounting policy or the correction of fundamental errors. A fundamental error is one of such significance as to undermine the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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.

Property, Plant and Equipment (PP&E)

property, plant and equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. PP&E is a summation of all the Council's purchases of property, plants, and pieces of equipment to that point in time, less any depreciation.

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.

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 Council and not by the Pension Fund.

Unusable Reserves

This include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve) adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

Usable Reserve

This includes the revenue and capital resources available to meet future expenditure (e.g. the County General Balances, Earmarked Reserves, and the Capital Receipts Reserve).

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 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.