Agenda Item 7

Report to:	**Audit, Best Value & Community Services Scrutiny Committee**
Date:	**4 September 2012**
By:	**Interim Director of Corporate Resources**
Title of report:	**Review of Annual Governance Reports and Statement of Accounts for 2011-12**
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 11 September 2012.**

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 The Independent Auditor's (PKF) report to those charged with governance and the Council's Statement of Accounts for 2011/12, along with the covering report under which they will be taken to Governance Committee for approval on 11 September 2012, are set out in Appendix A.

2.5 The final audit of the 2011/12 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.

2.6 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.

2.7 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. Income and expenditure on Environmental and Regulatory Services
b. Amendment of the Property, Plant and Equipment note.
c. Amendment to financial instruments in the financial instruments note,
d. Pension Fund Liability amendment
e. Adjustments between accounting basis and funding basis under regulations.

2.8 In carrying out their responsibility for review Members should consider:

- The oral introduction to this item by the Deputy Director of Finance, which will be made at the meeting;

- The findings made by the external auditors as a result of their audit of the 2011/12 accounts;

- Whether the management response to those findings is appropriate;

- Whether there are any issues arising that Members wish to bring to the attention of the Governance Committee when it meets to approve the Annual Governance report and Statement of Accounts for 2011/12 on 11 September 2012.

ANDREW TRAVERS
Interim Director of Corporate Resources

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

Local Members: All

<u>Background Documents</u>

None

Appendix A

Report to:	**Governance Committee**
Date:	**11 September 2012**
By:	**Interim Director of Corporate Resources**
Title of report:	**Independent Auditor's (PKF) Annual Governance Reports and Statement of Accounts 2011/12**
Purpose of report:	**To present the Annual Governance Report, and to report an expected unqualified opinion on the 2011/12 Statement of Accounts**

RECOMMENDATIONS: To

(1) Note the Independent Auditor's (PKF) Annual Governance Report on East Sussex County Council Accounts;

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

(3) Authorise the Interim 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 (Appendices 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 Interim Director of Corporate Resources on 29 June 2012 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 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 Paragraph 3.48 to 3.52 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.

3.4 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 Paragraph 3.26 to 3.28 of the report to those charged with governance.

5 Publication of Statement of Accounts

5.1 The legal deadline for publishing the 2011/12 accounts is the end of September 2012. 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.

ANDREW TRAVERS
Interim Director of Corporate Resources

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

Local Member: All

Background Documents

None

Accountants &
business advisers

East Sussex County Council

Annual Governance Report 2011/12

August 2012

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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.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

Code of Audit Practice

Statement of Responsibilities

1 Executive summary

1.1 The purpose of this report is to communicate to you the significant findings from the audit of East Sussex County Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources.

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 set out below:

Area of audit	Findings and conclusion
Financial statements	
Financial statements	One material misstatement was identified as a result of our audit work, which has been corrected in the final financial statements as follows: • reduction of gross income and gross expenditure by £9.487million (prior year £11.662 million) for amounts received from Brighton and Hove City Council and paid over to the contractor for the integrated waste management Private Finance Initiative, where we believe the Council should not be accounting for the part of the contract that relates to Brighton and Hove City Council A number of other amendments have been made to the draft financial statements presented to us for audit, including: • separate disclosure of concessionary fares expenditure of £7.451 million on the face of the Comprehensive Income and Expenditure Statement to show the effect of the transfer of the service to the Council at 1 April 2011. Some uncorrected non-trivial but not material errors have been identified and these are detailed in Appendix B. Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give a verbal update to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee at the meetings on 4 September and 11 September respectively. Subject to satisfactory completion of the outstanding work, we anticipate issuing an **unqualified** true and fair opinion on the financial statements for the year ending 31 March 2012.

Area of audit	Findings and conclusion
Internal controls	We have noted the following area where we consider that there is a significant deficiency in internal controls: • authorisation of journals is required where the total value of the amount to be posted exceeds £1 million whereas good practice would be to require independent authorisation of all manual journals created and posted to the SAP nominal ledger. We have raised this issue in previous years, and management has responded that it is satisfied that there are appropriate compensating controls in place to detect errors in journal postings. We have also noted a number of areas where we identified instances of non-compliance with the Council's internal controls including: • documentation to support invoice requisitions • evidencing receipt of goods • investment deal sheets authorisation • segregation in ordering and authorisation of Carepay expenditure • cash and cheques handling and security • authorisation lists for checking staff overtime and expense claims.
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.
Whole of government accounts	Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting on 4 September and 11 September respectively.
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 2012. 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 propose issuing an **unqualified** value for money conclusion.

Acknowledgement

1.4 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

2.1 International Standards on Auditing (ISAs) (UK and Ireland) 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 and our value for money conclusion. This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2012.

2.2 Our report is presented to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with 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*.

2.3 The contents of this report have been discussed and agreed with the Interim Director of Corporate Resources. We have reported separately to management other non-significant findings from our audit.

Findings

2.4 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 their responses are included. 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 only restated weaknesses already 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 2011/12 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 £187,465 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 the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

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 whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance. To do this we carry out risk based 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.

3.2 In carrying out our work we determine and apply a level of materiality. 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 as appropriate. Consequently, the audit cannot be relied upon to identify *all* risks or potential and actual misstatements.

3.3 We consider misstatements of less than £270,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them.

Reporting to those charged with governance

3.4 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which be believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

3.5 We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2011/12 Audit Plan issued in February 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and concluded that there are no changes to the significant risks previously reported.

3.6 Our audit approach was designed to address these risks and any relevant issues arising have been set out in the remainder of this report.

Accounting practices

Financial statements preparation

3.7 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 29 June 2012.

3.8 The Council provided us with files of working papers on 9 July, in line with the agreed timetable. Additional working papers were provided throughout the audit process as necessary, including a number of amendments to the working papers for property, plant and equipment.

Accounting policies

3.9 The following changes have been introduced by the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), resulting in changes in accounting practice:

- the adoption of FRS30 *Heritage Assets,* requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
- amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed
- new disclosure requirements for exit packages to disclose the number and cost of exit packages agreed in the year
- the introduction of disclosure requirements in relation to the nature and amount of trust funds (a previous Statement of Recommended Practice requirement that has been reinstated).

3.10 At the time of drafting this report our sample testing of the exit package disclosures is still in progress. We will give a verbal update at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting.

3.11 Based on the work completed to date and with the exception of the issues reported below, the Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required:

Heritage assets

3.12 A few presentational amendments have been made to the draft financial statements presented for audit to disclose the effect of the change in accounting policy for heritage assets on the prior year figures.

3.13 The Council sold the Bentley Wildfowl Centre and Motor Museum several years ago but retained the contents. These items are held in property, plant and equipment at a value of £645,000 awaiting disposal at some future date. These assets have not been reclassified as heritage assets as the Council plans to sell the assets. However, as they meet the definition of heritage assets, we believe that they are incorrectly classified in the financial statements and we have reported an unadjusted misstatement in Appendix B.

Accounting estimates

3.14 We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and 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

3.15 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 revalues land and buildings over a five year rolling programme and does not adjust for price indices between formal valuations unless there is indication of material changes.

3.16 Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.

3.17 For the assets formally revalued in the year, the valuer reported the values as at 1 April 2011 and provided a complementary report to confirm that there were no material changes at 31 March 2012. The Council adjusted the carrying values of its assets at the end of the year, after depreciation for the year but excluding any additions in the year, to agree to the valuer's certificate. However, as the valuation date was 1 April 2011, we believe that the valuation should have been applied before depreciating the assets, which would have resulted in a lower asset value at the end of the year.

3.18 We are in the process of discussing this issue with the Council to determine the extent of any misstatement to property, plant and equipment, the revaluation reserve and capital charges/credits to the Comprehensive Income and Expenditure Statement. Our preliminary calculations indicate that the misstatement is not material. We will give an oral update at the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee meetings in September.

3.19 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 showed that they are not unreasonable.

3.20 The Code requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value. As a minimum, this requires valuations to be obtained every five years but must be revalued more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value.

3.21 Management has stated that it is satisfied that the five year rolling programme of valuations is adequate and that there is no material difference between the fair value of land and buildings at 31 March 2012 and the carrying value based on valuations in previous years, as year end reviews of impairment and material changes are carried out by the valuer.

3.22 However, the evidence retained by management to support the cumulative movements in year end values for assets formally revalued under the rolling five year programme in previous years, is limited. We recommend that management more fully document the thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end.

3.23 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.

3.24 The Code requires that management reviews the residual value, useful life and depreciation method of classes of assets at the year end to confirm that annual depreciation charges properly reflect the consumption of those assets. Where these differ significantly from previous estimates the impact on the annual and future depreciation charges should be disclosed.

3.25 Management has stated that it has undertaken an informal review of useful lives and depreciation methods and that the existing assumptions remain appropriate. However, the evidence retained by management to support the review is limited and we recommend that management more fully document the annual review of useful lives and depreciation methods of classes of assets.

Estimated pension liability

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

3.27 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.

3.28 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.

3.29 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

3.30 The Council makes allowance for the impairment of debtors based on an assessment of their recoverability. 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.

3.31 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

3.32 The recognition of grant receipts in advance under the Code is based on whether there are conditions attached to the grant that have not yet been met. In the prior year, the Council considered that grants had conditions attached where failure to spend the grant could potentially result in renegotiation of the contract or project, even where not explicitly stated in the grant agreement.

3.33 We reported in the previous year that, in our view, the assumptions made by management were potentially over-prudent and that there was potential to recognise some of these grants as income in the year.

3.34 Following experience gained in implementing International Financial Reporting Standards principles, management has now amended the test of grant conditions for recognition as income, and defer grants recognition as income only where these contain an explicit requirement for repayment of monies if they are not spent.

3.35 Management has treated the change in its interpretation of a condition as a change in accounting estimate and the revised approach has been disclosed in the Critical judgements in applying accounting policies note within the financial statements. The change has resulted in the Council recognising £23.299 million of grant income this year for amounts that were previously held in receipts in advance and that would have been recognised as income in the prior year had the Council always applied the new approach.

3.36 IAS 8 *Accounting policies, changes in accounting estimates and errors* acknowledges that situations may arise where an estimate may need to be revised as a result of more experience. It further states that where it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate, the change is treated as a change in an accounting estimate, with appropriate disclosure.

3.37 We are satisfied that the Council has appropriately accounted for and disclosed the revised approach in its final financial statements.

Investments and cash and cash equivalents

3.38 In the current year, the Council has reclassified its deposit call account with it own banker as a short term investment rather than as cash and cash equivalents as in the prior year. The balance on the account at 31 March 2012 is £43 million and at 31 March 2011 was £42.4 million.

3.39 The Council has also reclassified one of its money market funds as cash and cash equivalents in the current year rather than short term investments as in the prior year. The balance on the fund at 31 March 2012 and 31 March 2011 is £13.7 million and £9.05m respectively.

3.40 The Council's accounting policies note states that only those accounts that are held for short term cash flow requirements are defined as cash equivalents. As a result of the audit, the Council has added a note to the 'Critical judgements in applying accounting policies' note to state which of its call accounts and money market funds were held for cash flow requirement purposes at 31 March 2012 and 31 March 2011, and to explain that these accounts change dependent on the relevant movements in money market conditions and the Council's Treasury Management Strategy.

3.41 We will seek management representation to confirm that at 31 March 2012 the Council's RBS Money Market Fund was held for short term cash flow requirement purposes, and is therefore correctly defined as a cash equivalent, and that the NatWest call account was no longer held for that purpose and is therefore correctly defined as an investment.

Uncorrected misstatements

3.42 We are required to report to you 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 auditor's report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix B.

3.43 We have requested that these misstatements be corrected and seek written representation from those charged with governance that they acknowledge these misstatements and that they are satisfied with management's reasoning for not correcting the financial statements.

Accrued balance for third parties

3.44 An amount of £1.696 million receivable from West Sussex County Council in respect of concessionary fares has been netted off 'Accrued balance at bank and for third parties' within current liabilities rather than being included with debtors.

Heritage assets

3.45 Misclassification of the contents of the Bentley Wildfowl Centre and Motor Museum, to the value of the £645,000, as property, plant and equipment rather than heritage assets.

Payments in advance

3.46 Our audit found that two amounts totalling £346,000 in respect of payments for Special Education Needs placements in 2012/13 are included in payments in advance at year end although they were only paid after year end; these items have also been included in creditors although they do not represent liabilities for the current year, therefore prepayments and creditors are overstated.

Creditor accruals

3.47 Our testing of a sample of creditor accruals found that an accrual on the Integrated Community Equipment Service pooled budget, that was estimated based on the best available information at the time of closing down the accounts, was overstated by £584,000 when compared to the payments made to the relevant provider after year end.

Misstatements corrected by management

3.48 One material misstatement was identified as a result of our audit work, which has been corrected in the final financial statements:

Income and expenditure on Environmental and Regulatory Services

3.49 Our audit found that amounts received from Brighton and Hove City Council and paid over to the Private Finance Initiative (PFI) operator for the integrated waste management contract were included in both income and expenditure in the current year and prior year.

3.50 As both councils are jointly and severally liable under the contract and proportionately share the associated risks, we believe that the Council is acting in an agent capacity in passing over payments to the contractor for Brighton and Hove City Council. In these situations, the Code requires that only the relevant share of the transactions that relate to the activities of the Council should be reflected in its financial statements.

3.51 The Council has therefore amended its financial statements to reduce gross income and gross expenditure by £9.487million and restate prior year comparatives by £11.662 million. There is no net impact on the net cost of services in either year.

Other presentational and disclosure amendments

3.52 Other presentational and disclosure amendments that have been made to the draft financial statements presented for audit include:

- separate disclosure of concessionary fares expenditure of £7.451 million on the face of the Comprehensive Income and Expenditure Statement to show the effect of the transfer of the service to the Council at 1 April 2011
- removal of £730,000 internal interest recharges from interest receivable and interest payable
- reclassification of amounts totalling £947,000 from ‘other entities and individuals’ to ‘other local authorities’ within the debtors note as a result of misclassifications identified by our audit testing and further review by the finance team
- correction to a number of prior year comparatives so as to agree to the prior year audited financial statements, and including explanations where prior year amounts have been restated (principally in the Cash Flow Statement and notes for debtors, creditors, external audit costs and capital financing requirement)
- amendments to disclosures in the ‘Adjustments between accounting basis and funding basis under regulations’ note in respect of valuation movements and the application of grants in the year
- amendments to disclosures in the Property, Plant and Equipment note so as to agree to the fixed assets register and to more clearly show valuation and movements to remove revenue expenditure funded by capital in respect of assets under construction
- amendments to disclosures in the Usable Reserves note for movements in the revaluation reserve in the year
- corrections to disclosures in the notes supporting the Cash Flow Statement.

3.53 We have also suggested a number of areas where the financial statements could be improved that have been accepted by management:

- removal of some of the immaterial disclosures in the accounting policies note and other notes
- expanding the narrative in the ‘Critical judgements in applying accounting policies’ note to more clearly set out management’s revised judgements in respect of grant conditions
- inclusion of an analysis of movements in the pensions reserve in the Unusable Reserves note
- correction to a number of disclosures in the ‘Amounts reported for resource allocation decisions’ note

- presentational amendments to the 'Defined Benefits Pension Schemes' note to comply with the Code disclosure requirements.

Other matters

3.54 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- significant deficiencies in internal control identified during the audit
- matters specifically required by other auditing standards to be communicated to those charged with governance (for example issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
- other audit matters of governance interest.

Significant deficiencies in internal control

3.55 We reported the following significant deficiencies in internal controls to management and the Chairs of the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee in July 2012.

3.56 We have raised recommendations to address these issues, where relevant, in the action plan at Appendix A.

Authorisation of journals

3.57 Internal Audit's testing found that three out of a sample of fifteen journals tested for the year had not received proper authorisation where the journal exceeded the Council's £1 million threshold for authorisation.

3.58 In addition, we have previously reported that the Council does not require independent review or authorisation of journals in respect of treasury management, capital finance and pension fund entries, and we have concerns with regard to the high threshold for the authorisation of journals.

3.59 In 2012/13 management has put in place a process by which all journals over £1 million are now independently authorised, including those previously not requiring review (treasury management, capital finance and pension fund).

3.60 The £1 million threshold was considered by management and it was concluded that it was not considered necessary to amend the Council's policy in this area as management is satisfied that there are appropriate compensating budgetary controls in place to detect errors in journal postings.

3.61 We believe that the high threshold continues to pose a risk of undetected misstatements to the financial statements due to fraud or error.

Invoice request forms for income

3.62 Internal Audit's testing of a sample of income transactions found that for two out of fifteen 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. We reported a similar issue in the prior year.

3.63 We believe that the use of formal documentation, either in the form of invoice request forms or other documentation, is a key control for ensuring that income is accurately billed and assists departments in monitoring whether invoices have been raised for all requests.

Expenditure and creditors

3.64 Internal Audit's testing found that whilst controls over goods receipting are in place, there have been instances where there is insufficient evidence to confirm that goods have actually been received.

3.65 This poses a risk that the Council may record expenditure and pay for goods and services that have not been received.

Investment dealing sheets

3.66 In order for investment transactions to be made it is necessary for daily dealing sheets to be completed and appropriately authorised. It was noted by Internal Audit that for two of the sheets in their sample of ten there were additional investment items and it was unclear as to whether these were included under the original authorisations on the form.

3.67 This raises the risk of investments being made that are not in accordance with the approved policy, with consequent financial loss to the Council.

Carepay

3.68 There is a lack of segregation of duties in relation to the raising and authorisation of expenditure in the Carepay system and no mitigating controls were in operation during the year. In addition, Internal Audit's testing of the forms that are used to support the authorisation of Carepay expenditure noted a number of instances where date and payment details are not being fully recorded.

3.69 This raises the risks of fraudulent expenditure and errors such as overpaying for an individual's care.

Cash receipts

3.70 When cash or cheques are physically received by the Council, they are counted, recorded and deposited into the safe by a single member of staff. Good practice would require that cash and cheque handling procedures are dealt with by two members of staff in order that one can receipt and one can record the monies involved; thus reducing the risk of both misappropriation and error in the recording and banking of cash.

3.71 Additionally, we noted that there are insufficient controls over the safeguarding of cash and cheques received. There is therefore a risk of misappropriation of Council assets.

3.72 Following our audit findings, we are informed that controls have been strengthened to address these issues.

Staff overtime and expense claims

3.73 There are no authorised signatory lists in place to allow the payroll provider, Serco, to confirm that claim forms have been appropriately authorised and mitigating controls were not fully in operation throughout the year.

3.74 This heightens the risk of inappropriately authorised employee overtime and expense claims being undetected, thus putting the Council at risk of incurring fraudulent expenditure.

Unspent departmental budgets

3.75 The Council currently applies a policy of transferring departmental underspends at year end to earmarked reserves, to enable them to be spent in the following financial year. There is £12.7 million on this reserve at 31 March 2012. We note that the Council has plans to review this practice going forward.

Annual governance statement

3.76 We have reviewed the annual governance statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.

Whole of government accounts

3.77 Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit, Best Value and Community Services Scrutiny Committee meeting and the Governance Committee meeting on 4 September and 11 September respectively.

Foreword to the Statement of Accounts

3.78 We read the foreword to the Statement of Accounts although this is not part of out true and fair opinion on the financial statements.

3.79 The foreword includes the required content specified by the Code although we have made a number of suggestions where information could be included to provide a more comprehensive view of key issues in the financial statements including:

- major new capital additions to comment on the Newhaven Energy Recovery Facility and the PFI funding arrangement

- major asset disposals to comment on the transfer of community schools to academy statues in the year and those that received approval after the year end
- new borrowing taken in the year and the proposed use of the new borrowing.

3.80 In common with other local authorities, the financial commentary in the foreword is presented in the Council's budget format which differs to the presentation in the Comprehensive Income and Expenditure Statement and the analysis in the reconciliation to the 'amounts reported for resource allocation decisions' disclosure. Ideally, there would be a reconciliation of the budget format in the foreword with the financial statement.

Written representations

3.81 We are required by ISAs 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 C.

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

Audit report

3.83 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:

- testing of grants income and deferred balances
- testing of revaluation movements for property, plant and equipment
- testing of the exit packages note
- external confirmation letter on money market fund from BlackRock
- audit of the revised 'Amounts reported for resource allocation decisions' note
- clearance of review queries.

3.84 We will provide a verbal update on these outstanding issues at the Audit, Best Value and Community Services Committee and the Governance Committee meetings.

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).

4.2 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 2011/12 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

4.3 Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

4.4 Our 2010/11 assessment highlighted that whilst the 'Reconciling Policy and Resources' (RPR) process for 2010/11 has worked well, management had acknowledged that changes needed to be made to cope with the scale of challenge over the next three years.

4.5 The Council has improved its financial planning arrangements for 2011/12 by more closely aligning its financial resources with its strategic priorities. The RPR process has now become the 'Reconciling Policy, *Performance* and Resources' (RPPR) process.

4.6 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 in ensuring that the Council's overall financial position is understood within the organisation and among partners.

Financial outturn 2011/12

4.7 Budgeted gross expenditure on services for 2011/12 was £832 million compared to £859 million in the previous year. The opening value of services funded by formula grant increased from £100 million in 2010/11 to £134.8 million in 2011/12 as a result of a number of separate funding streams being transferred into formula grant. However, the final 2011/12 formula grant was £117.8 million, therefore a reduction of £17 million on the starting position.

4.8 In setting the budget, the Council identified cost pressures of £20.2 million and after taking account of the decrease in formula grant of £17 million (12.6%), a reduction in specific grants of £14.4 million, two new grants totalling £11.4 million, a council tax freeze and other planned cost reductions of £3.2 million, the budget approved by Council in February 2011 included a savings requirement of £37 million to balance the budget.

4.9 The Council delivered against the budget and reported an underspend of £12.7 million, which was transferred to earmarked reserves for the departments to use in the following financial year. The key steps taken to make savings included reduced administration and efficiencies from procured services, inflationary increases available only for priority services, careful use of specific grant funding and targeted priority areas, managing cash balances prudently in earning interest income, and minimising the cost of borrowing to fund the capital programme.

4.10 The Council's overall useable reserves have increased by £23 million to £235.5 million at 31 March 2012. The level of reserves as a percentage of revenue expenditure is high compared to other county councils and these support the resilience of the Council.

4.11 Earmarked reserves total £148.6 million and include £70 million to meet the estimated future costs of managing the waste facility and reserves of £78.6 million which comprise principally funding for the capital programme, carried forward departmental underspends and a self insurance reserve.

4.12 Earmarked reserves have decreased by £36.5 million in 2011/12. This is largely due to a reduction of £30.5 million in the prepaid contributions towards the capital development of the waste transfer stations and the main waste facility; which was written out of earmarked reserves when the energy recovery facility became operational during the year.

4.13 The Council's general fund balance at 31 March 2012 is £8.3 million, which is in line with the Council's target minimum level of 2.25% of the net revenue budget. The value of unallocated financial reserves (the general fund balance) as a proportion of total net spend is low compared to other councils, however this is due to the Council carrying a higher level of earmarked reserves.

4.14 Other useable reserves at 31 March 2012 include £53.9 million in capital grants and contributions unapplied, which will decrease as the expenditure is incurred, £7.9 million in the capital receipts reserve and schools balances of £16.8 million.

Budget 2012/13 and beyond

4.15 The revenue budget for 2012/13 requires savings of £19 million, on top of the £37 million achieved in 2012/13. In addition, the medium term financial plan expects further savings of £37 million for 2013/14 to 2014/15.

4.16 Planned net expenditure per head of population for 2011/12 is high compared to other county councils and the amount of income raised through fees and charges in recent years is relatively low. This suggests that there is scope for the council to further reduce expenditure and generate additional income.

4.17 Overall the Council is well placed to manage the delivery of the required savings over the next few years and has sufficient flexibility in its reserves to remain financially resilient.

Challenging economy, efficiency and effectiveness

4.18 Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

4.19 Our 2010/11 use of resources work highlighted that the Council had implemented improvements to the RPR process in 2011/12.

4.20 The RPPR process in 2011/12 focussed on the need for the Council to balance the 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 RPPR to deliver the best possible value for money.

4.21 Further improvements to the RPPR process has involved linking policy, performance and resources to an overall commissioning approach for each set of services (a fourth choice – how to do it). This is supported by using 11 smaller 'service areas' in each portfolio as the basis for integrating financial and performance information and so allows 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.

4.22 The Council's programme of service reviews was revised in 2011/12 to support the strategic commissioning approach going forward and it was updated to reprioritise some reviews, add new areas and include additional monitoring information. Staff involved in reviewing services have received training on 'Lean' methodologies to help them to identify activities and processes which prevent the Council from being effective. Each department has a four year programme of reviews. Examples of current reviews include:

- the 'SPACES' project which has been set up by the East Sussex Strategic Partnership to review and seek opportunities to reduce the size and cost of the public sector property estate in East Sussex through property disposals, reduction in property revenue costs and reduction in carbon dioxide production
- an Agile Working programme, which is a fundamental review of the way in which staff deliver services and covers roles, work styles, technology, information and the physical estate; the programme is currently in the scoping phase

- a review of communications services to seek opportunities for efficiencies and improvements in customer satisfaction through developments in technology and social media
- a Highways service review, which identified a total of £1.6 million savings to be made in 2012/13 from implementing an integrated team structure, investment in new technology and lower contract rates
- the 'THRIVE' programme in Children's Services, which is looking at how the Council and partners work together to develop early help services that make the best use of resources to improve the lives of families facing difficulties.

4.23 Service reviews of finance, ICT and property are also currently being carried out by the Interim Director of Corporate Services, as well as an external review of the personnel and training service. These reviews are building on the work that was done to revise senior officer structures in March 2011, which has delivered savings in the region of £400,000 in 2011/12.

4.24 The review of finance, ICT and property to date has identified the need for a major change to the way that support services are organised if the commissioning discipline is to be effectively supported. Management is consulting on a proposal to consolidate the services currently in the Corporate Resources department (Finance and Assurance, Property, ICT and the procurement function shared with Surrey County Council), the support services based in departments and Personnel and Training, into a single department called Support Services. Alongside these changes, it is proposed that the existing Director of Resources post is replaced by a Chief Operating Officer post to lead the proposed Support Services department. It is intended that these changes will yield significant savings and efficiencies.

4.25 The Council has 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.

4.26 The Council is leading on the SE7 work stream to reform the Special Education Needs and Disability (SEND) system and proposals have been submitted to the Secretary of State for Education for a radical redrawing of the SEND system as part of the Department for Education and Department of Health SEND Pathfinder programme. The goal is to deliver better outcomes for children and their families by demonstrating that greater parental engagement, placing families at the centre of the process, will generate less conflict and dissatisfaction, and therefore ultimately drive efficiencies.

Performance against 2011/12 priorities

4.27 The Council reported performance for 147 key measures and targets against its policy steers for 2011/12. Outturn reports show that 110 (74.8%) targets were achieved and 37 (25.2%) targets were not achieved. There were 78 measures where the Council could compare performance to the previous year and 69.2% had improved, 14.1% showed no change and 16.7% deteriorated.

4.28 Performance and other achievement highlights for the year include:

- Ofsted judging the Adoption and Fostering Services as 'outstanding' and Children's Services as 'performing well'
- significant improvements in GCSE results, with performance at 5 A*-C including English and Maths up from 55.4% in 2010 to 58.4% in 2011
- an increase of 17.4% of the number of adults and older people receiving self directed support in 2011/12
- approval of funding for the Bexhill to Hastings Link Road, which will support commercial property development in Hastings
- establishment of a procurement partnership with Surrey County Council
- improvement in energy management of buildings and street lighting resulting in a 3% reduction in the Council's carbon footprint
- over £13 million invested in the improvement of libraries
- commencement of construction of a new Historical Resource Centre (The Keep) to store archives and other historical resources
- the Newhaven Energy Recovery Facility becoming fully operational in the autumn of 2011, which has already reduced the amount of waste sent to landfill from 110,000 tonnes in 2010/11 to 51,000 tonnes in 2011/12.

Council Plan 2012/13

4.29 The Council has set 149 keys measures and targets against its policy steers for 2012/13.

4.30 A review of spending across service areas for county councils in recent years has indicated that the Council has some areas of above average spending and therefore there is potentially scope for further improvements and efficiencies to be achieved through continued service reviews and benchmarking. We are satisfied that the Council understands the reasons for these and that they reflect the demographics of the resident population, areas of priority spending and investment.

Audit report (value for money conclusion)

4.31 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.

4.32 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 2012. We propose issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Financial statements				
The evidence retained by management to support the assessment that the carrying values of land and buildings not valued in year is materially accurate when compared to fair value is limited.	1. We recommend that management more fully document the thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end.	Corporate Finance and Property Services will ensure and document the thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end, in compliance with the CIPFA Code.	Ola Owolabi	January 2013
Management has stated that it has undertaken an informal review of useful lives and depreciation methods and that the existing assumptions remain appropriate. However, the evidence retained by management to support the review is limited.	2. We recommend that management more fully document the annual review of useful lives and depreciation methods of classes of assets.	Corporate Finance team and Property Services will document the annual review of useful lives and depreciation methods of classes of assets.	Ola Owolabi	January 2013

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Internal controls				
Internal Audit's testing of a sample of income transactions found that for two out of fifteen 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. We reported a similar issue in the prior year. We believe that the use of formal documentation, either in the form of invoice request forms or other documentation, is a key control for ensuring that income is accurately billed and assists departments in monitoring whether invoices have been raised for all requests.	3. We recommend that management reviews its policy and procedures with regards to the use of official documentation for invoice requests.	This has not been completed as yet due to other priorities, the Income Policy will be updated as part of the AR project and a sentence will be included referring to the use of spreadsheets.	Janyce Danielczyk	March 2013
Internal Audit's testing found that whilst controls over goods receipting are in place, there have been instances where there is insufficient evidence to confirm that goods have actually been received. This poses a risk that the Council may record expenditure and pay for goods and services that have not been received.	4. We recommend that management implement procedures to ensure that goods and services are receipted only upon positive confirmation that the goods or services have been received and that this evidence is retained.	A new version of the requisition form has been created which includes both the requisition form and the goods receipt form. This will be launched along with all other Procurement guidance notes, which are currently being reviewed and updated	Hannah Phillips	September 2012

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
It was noted by Internal Audit that for two of the investment dealing sheets in their sample of ten there were additional investment items and it was unclear as to whether these were included under the original authorisations on the form. This raises the risk of investments being made that are not in accordance with the approved policy, with consequent financial loss to the Council.	5. We recommend that Internal Audit's recommendation regarding the investment dealing sheets is implemented, to ensure that when completing an investment transaction, the authorised daily sheet is updated to reflect any amendments, updated record of authorisation and the checking of balances.	Agreed.	Les Langston	Immediately
There is a lack of segregation of duties in relation to the raising and authorisation of expenditure in the Carepay system and no mitigating controls were in operation during the year. In addition, Internal Audit's testing of the forms that are used to support the authorisation of Carepay expenditure noted a number of instances where date and payment details are not being fully recorded. This raises the risks of fraudulent expenditure and errors such as overpaying for an individual's care.	6. We recommend Internal Audit's recommendation regarding segregation of duty controls in the Carepay system is implemented.	Agreed. This will be looked at with recommendation 10 (of the Internal Audit report) and with the audit tables (recommendation 3 in the Internal Audit report), to find the best solution to this issue. The manual workaround does work and the issue above was a result of limited staff availability on that particular day. Where there is an issue with the approvers log on the file note should be signed off by the Head of Strategic Finance.	Annette Brown/Wendy Law	September 2012

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
	7. We recommend that Internal Audit's recommendation regarding the completion of CF6 forms used in the Carepay system is implemented, to ensure that the forms are fully completed and authorisations updated where necessary.	There is a timescale issue if payment requests are not received until the Friday and had to be sent back it would mean the payment would be delayed a week. It was agreed that in cases where there were gaps on the Payment Authorisation Forms, an e-mail would be sent to the Fostering admin team to obtain the missing details to enable the payment to be made promptly.	Annette Brown	Immediately
There are no authorised signatory lists in place for the authorisation of staff expense and overtime claims to allow the payroll provider, Serco, to confirm that claim forms have been appropriately authorised and mitigating controls were not fully in operation throughout the year. This heightens the risk of inappropriately authorised employee overtime and expense claims being undetected, thus putting the Council at risk of incurring fraudulent expenditure.	8. We recommend that management considers implementing authorised signatory lists for the authorisation of staff expense claims and overtime.	There is already an efficient process in place to validate the approval of payroll claims. Maintaining a signatory listing was replaced by the claims stamp process. This stamp process authorisation has now been superseded with an additional validation process. These new processes include extra monthly checks that are undertaken by Serco payroll department, prior to the claims being processed for payment. Every month 50 claims are selected at random and validated in the following way: • Line Manager of claimant is sent an email to confirm that they have approved the claim. • Claim is not processed for payment until a response is received.	Steve Wickham/Kelly Widdop	On-going

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the financial statements:

Unadjusted misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves (Over)/ Under £'000	Management comments
Factual misstatements						
Misclassification of balance receivable from West Sussex County Council in respect of concessionary fares, which is netted off 'Accrued balance at bank and for third parties' within current liabilities rather than being included with debtors.			1,696	(1,696)		
Understatement of heritage assets and overstatement of property, plant and equipment for the contents of the Bentley Wildfowl Centre and Motor Museum.			645 (645)			
Overstatement of payments in advance and creditors in respect of payments for Special Education Needs placements for 2012/13 that were only paid after year end.			(346)	346		
Judgemental misstatements						
Overstatement of estimated creditor accruals and expenditure on the Integrated Community Equipment Service pooled budget.		(584)		584		
Projected misstatements (extrapolation of errors)						
None.						
Total net misstatements		(584)	1,350	(766)		
Total net misstatements						
- Net overstatement of costs		584				
- Net understatement of net assets					584	

Appendix C: 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

11 September 2012

Dear Sirs

Financial statements of East Sussex County Council for the year ended 31 March 2012

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 2012 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 Interim Director of Corporate Resources and s151 Officer my responsibilities for the Statement of Accounts, which include 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

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

(a) Pension fund 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. These assumptions include:

- Rate of inflation 2.5%
- Rate of increase in salaries 4.8%
- Rate of increase in pensions 2.5%
- Rate for discounting scheme liabilities 4.8%
- Expected return on assets 5.9%

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

(b) 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.

(c) Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2012, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

(d) Cash and cash equivalents

I am satisfied that the Council's RBS Money Market Fund was held for short term cash flow purposes at 31 March 2012, and is therefore correctly defined as a cash equivalent, and that the NatWest call account is no longer held for that purpose and is therefore correctly defined as an investment.

Plans or intentions

I confirm that 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 all known 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.

Related parties

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

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

I believe that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

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 and have considered a future period of at least one year from the date on which the financial statements will be approved.

Comparative information

I confirm that, in respect of the restatements to implement the accounting policy changes for heritage assets and investments / cash and cash equivalents, the adjustments relate to changes in accounting policies as I believe that the new accounting policies are more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policies.

INFORMATION PROVIDED

Completeness of information

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given 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.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal control

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

I have communicated to you all significant deficiencies in internal control 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 involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

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

Compliance with law and regulations

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

Related parties

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

Liabilities, contingent liabilities or 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.

Yours faithfully

Andrew Travers

Interim 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 Statement of Accounts, which include the financial statements. The Interim Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Interim Director of Corporate Resources for not correcting these misstatements, and we consider them to be immaterial to the view given by 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

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Accountants &
business advisers

East Sussex Pension Fund

Annual Governance Report

2011/12

August 2012

Contents

Appendices

1 Executive summary

1.1 The purpose of this report is to communicate to you the significant findings from the audit of the pension fund financial statements contained within the financial statements of East Sussex County Council. A summary is set out below:

Area of audit	Findings and conclusion
Financial statements	No material misstatements were identified as a result of our audit work. One uncorrected non-trivial but not material error has been identified: • £977,000 cash balances held as part of the Council's bank accounts represent day to day working capital of the fund and should be reclassified as a current asset rather than investment assets Some areas of work are still outstanding at the time of drafting this 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 4th September and 11th September respectively. Subject to satisfactory completion of the outstanding work, we anticipate issuing an **unqualified** true and fair opinion on the pension fund financial statements for the year ending 31 March 2012.
Internal controls	We have noted the following area where we consider that there is a significant deficiency in internal controls: • pension fund journals do not require independent review or authorisation. We have raised this issue in previous years. Management has since agreed that journals in excess of £1 million are now independently reviewed. We have also noted a number of areas where we identified instances of non-compliance with the Council's internal controls or where retained evidence of a control could be improved: • evidence of review of bank reconciliations • evidence of the reconciliation of pension payments between AXISe and SAP • evidence of check of pension payments • removal of IT access rights for staff that have left or transferred • strengthen the certification of LGPS 31 returns from employers.
Other Matters	We have noted on a number of occasions that some of the smaller admitted or scheduled bodies had failed to pay contributions to the Council within the 19-day due date.

1.2 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

2.1 International Standards on Auditing (ISAs) (UK and Ireland) 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 pension fund financial statements. This report summarises the results of our audit work completed to date in respect of the financial statements of the East Sussex Pension Fund, as contained within the financial statements of East Sussex County Council for the year ended 31 March 2012.

2.2 Our report is presented to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with 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*.

2.3 The contents of this report have been discussed and agreed with the Interim Director of Corporate Resources. We have reported separately to management other non-significant findings from our audit.

Findings

2.4 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 their responses are included. 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 only restated weaknesses already 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 £43,570 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 the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

3.1 We are required to provide an opinion on whether the pension fund financial statements 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 whether they have been prepared properly in accordance with appropriate legislation and relevant accounting guidance.

3.2 To do this 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.

3.3 In carrying out our work we determine and apply a level of materiality. 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 as appropriate. Consequently, the audit cannot be relied upon to identify *all* risks or potential and actual misstatements.

3.4 We consider misstatements of less than £630,000 for investment balances and £105,000 for all other items to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them.

Reporting to those charged with governance

3.5 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which be believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

3.6 We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2011/12 Audit Plan issued in February 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft pension fund financial statements, and concluded that there are no changes to the significant risks previously reported.

3.7 Our audit approach was designed to address these risks and any relevant issues arising have been set out in the remainder of this report.

Accounting practices

Financial statements preparation

3.8 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements of the pension fund were signed and presented for audit on 29 June 2012.

3.9 There was a slight delay in the start of the audit where finance staff requested additional time to obtain the additional information required by the CIPFA template pension fund financial statements. The Council provided us with files of comprehensive working papers on the first day of the audit on site.

CIPFA template financial statements

3.10 The financial statements have been prepared in accordance with the CIPFA template. However, there are some areas where the Council has departed from the template:

- analysis of investment assets has included not only investment assets, but has also included in this note all current assets and current liabilities
- percentage value of investments held by each fund manager has been calculated against the investment assets without adjustment for derivatives, other investment assets and other investment liabilities for each fund manager
- analysis of individual investments greater than 5 per cent has been measured against total investment assets rather than net assets of the fund.

3.11 We do not consider these to be significant departures from the expected presentation of the financial statements.

Accounting policies

3.12 The pension fund accounts have been prepared in accordance with the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code') and have, in all material respects, correctly applied the relevant accounting policies.

3.13 The following change has been introduced by the Code in 2011/12':

- additional information on financial instruments classification, valuations and risks.

3.14 The Council has dealt with the implementation of this change in an appropriate manner and produced the required additional information following the CIPFA template pension fund financial statements. However, revisions to some of the financial instruments disclosures were required and these are commented on in the Misstatements corrected by management section below.

Accounting estimates

3.15 We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and 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.

Fair value of unquoted private equity and infrastructure investments

3.16 A number of investments are held in private equity and infrastructure funds where the fund manager provides information on the value of the fund at 31 December 2011 and Northern Trust, as Custodian, update this for contributions and withdrawals made by the pension fund up to 31 March 2012. Management rely on the expert valuation undertaken by the fund manager.

3.17 We have agreed the fund values in the financial statements through to underlying accounts provided by the fund managers at 30 September or 31 December 2011 (for their most recent reporting dates) and information regarding the pension fund's share of the holding, adjusted for cash transactions into or from the funds to 31 March 2012.

3.18 We have also reviewed the controls assurance reports published by the fund managers. Although we noted that Adam Street does not obtain or publish independent assurance reports, management have sought assurances direct from the fund manager.

Uncorrected misstatements

3.19 We are required to report to you 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 auditor's report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix B.

3.20 We have requested that these misstatements be corrected and seek written representation from those charged with governance that they acknowledge these misstatements and that they are satisfied with management's reasoning for not correcting the financial statements.

Misclassification of working capital cash

3.21 The pension fund maintains a separate bank account to receipt pension contributions and other income and pay benefits and other expenses. This is a new requirement in 2011/12 and in previous years the pension fund cash balance was held within the Council's own cash balances, and the notional cash balance was recorded as an inter-group balance.

3.22 The bank account balance of £977,000 has been classified as part of the fund's investment assets but should be correctly included as a current asset balance. This misclassification has no impact on the overall net assets of the fund.

Accrual for fund manager fees

3.23 The Marathon fund manager fee is based on outturn performance to the year ended 30 June 2012, and the information on performance is not available until some time after the year end. The charge in each year is accounted for in the year that the performance fee becomes payable with no adjustment to estimate the element of performance fee payable to 31 March 2012. Therefore, in each year there will be a 12-month fee charge for the Marathon fund manager. In 2011/12 the performance fee charged to the end of 30 June 2011 was £406,081.

3.24 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.

3.25 We note that management has recently dis-invested from the Marathon fund and the final fees payable will be charged into 2012/13.

Misstatements corrected by management

3.26 We identified a number of immaterial but non trivial departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the guidance in the Code of Practice. These have been amended in the revised financial statements:

Cash Deposits with ESCC

3.27 We noted that £323,000 of unpresented cheques and un-cleared BACS payments has been erroneously included in current liabilities rather than included as cashbook items against the reported bank balance. As a result, both 'Cash Deposits with ESCC' and 'Current Liabilities' were overstated and the financial statements and related notes have been amended.

Misclassification of derivative assets

3.28 The fund holds derivative investments for futures and forward currency options valued at 31 March 2012 as an asset of £315,000 and £638,000 respectively. The forward currency option was valued at a loss (a liability) in the previous year. The asset balance of the forward currency option of £638,000 had been incorrectly netted off against investment liabilities in the financial statements. The financial statements and related notes have been amended.

Taxes on Income within the Fund Account

3.29 Additional guidance has been received for correct accounting for withholding taxes, where both irrecoverable and recoverable should be included under 'Taxes on Income'. The correct gross amount has now been included in the Fund Account in the current and previous year.

Other presentational and disclosure amendments

3.30 Other presentational and disclosure amendments that have been made to the draft financial statements presented for audit include:

- include an explanation for the restatement to gross up withholding taxes in the prior year and amendment to the supporting notes
- additional narrative included to explain the group transfer in for Surrey Probation staff that are now part of Surrey and Sussex Probation
- amendment to the investment assets 'change in market value during the year' note to agree to the Fund Account
- financial instruments classification note was initially prepared showing only investment assets and has now included current asset and current liability financial instruments
- analysis of cash holdings by type of investment institution
- additional related party transactions information relating to the administration charge paid to the Council.

Other matters

3.31 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- Significant deficiencies in internal control identified during the audit

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
- Other audit matters of governance interest.

Significant deficiencies in internal control

3.32 We reported the following significant deficiencies in internal controls to management and the Chairs of the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee in July 2012.

3.33 We have raised recommendations to address these issues, where relevant, in the action plan at Appendix A.

Authorisation of journals

3.34 In 2011/12, pension fund manual journals did not require independent review or authorisation. Therefore, movements in investment assets that are journalled onto SAP following completion of the investment asset spreadsheet by Corporate Finance (which is based on the detailed information provided by Northern Trust) is not independently checked back to the Northern Trust report.

3.35 We have reported this issue in previous years and recommended that management consider a requirement for independent review of all journals above an agreed threshold.

3.36 In 2012/13, management has put in place a process by which all journals over £1 million are now independently authorised. The £1 million threshold was considered by management to be an appropriate level at which this review was considered necessary and is in line with the Council's overall policy on journal authorisation.

3.37 We believe that the high threshold continues to pose a risk of undetected misstatements to the financial statements due to fraud or error.

Bank reconciliations

3.38 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. However, there is no evidence of independent review of the bank reconciliations that are carried out for the pension fund's bank account that was opened at the start of the year.

3.39 Insufficient evidence of appropriate review of the bank reconciliations, including review of outstanding receipts and payments and other reconciling audit trails, increases the risk of undetected fraud and errors in the bank balance. We recommend that the bank reconciliations are independently reviewed and that evidence of this review is retained.

Monthly reconciliation of pension payments between AXISe and SAP

3.40 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. We recommend that the AXISe and SAP pension payment reconciliations are retained.

Reasonableness check on benefits payable

3.41 On a monthly basis the Pensions Administrator sends an 'ESCC LG Monthly Reconciliation spreadsheet' to the Pensions Manager. Upon receipt, the Pensions Manager completes a reasonableness check against the previous month's figures. It has been noted, however, that the check of reasonableness is not evidenced.

3.42 We recommend that, in order to provide an audit trail, the spreadsheet is initialled and dated after it has been checked for reasonableness.

System access to benefits payable

3.43 It has come to our attention, from Internal Audit's work, that a member of staff had 'level 5' access rights despite her moving departments and no longer requiring access to AXISe. Untimely non-removal of users no longer requiring access could result in unauthorised changes to data (especially given the high level of access rights involved). We recommend that the user access reports are regularly reviewed to ensure all access granted is appropriate and necessary.

Contributions Receivable

3.44 Internal Audit found that the LGPS 31 forms for the admitted bodies sampled were not physically signed on three occasions; instead the name had been typed into the 'certified correct' field. This could mean the person whose name appears in the box did not actually certify the figures. One return had been sent in as a spreadsheet and one as a word document. These could potentially have been edited to show incorrect figures after they have been submitted. Additionally, it was noted that some of the forms had been incompletely populated.

3.45 There is a risk that the forms are being signed without appropriate checks of the figures, leading to incorrect or incomplete data in the pension fund's accounts. We recommend that all LGPS31 forms are rejected unless they are physically signed or at least PDF'd by the person who electronically authorised them and immediately sent to the Council. These should also be rejected if they are incompletely or incorrectly populated.

Other matters of governance interest

Late payment of contributions from admitted and scheduled bodies

3.46 There have been 26 instances of late contributions by 20 of the admitted and scheduled bodies. We note however that this is an improvement on the 2010/11 late payment instance of 45. We also note that management has presented updates to those charged with governance on this issue.

Outstanding contributions from Sussex Coast College

3.47 We noted from our audit testing that Sussex Coast College did not pay any contributions in December 2011. On investigation it was determined that the College wished to transfer some of its members to the teachers pension scheme, and withheld contributions rather than following the appropriate procedure. The amounts due is below our trivial reporting level but we believe this should be brought to your attention.

Written representations

3.48 We are required by ISAs 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 C.

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

Audit report

3.50 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:

- further information in respect of related parties and the disclosed transactions
- clearance of review queries.

3.51 We will provide a verbal update on these outstanding issues at the Audit, Best Value and Community Services Committee and the Governance Committee meetings.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Internal controls				
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. However, there is no evidence of independent review of the bank reconciliations that are carried out for the pension fund's bank account that was opened at the start of the year.	1. We recommend that the bank reconciliations are independently reviewed and that evidence of this review is retained.	Bank Reconciliations are sent every month to Ola Owolabi (Head of Corporate Finance) for review and are retained in the shared network.	Ola Owolabi	Monthly
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.	2. We recommend that the AXISe and SAP pension payment reconciliations are retained.	A formal reconciliation process is signed off on a quarterly basis by Tony McCormack and 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	Monthly
On a monthly basis the Pensions Administrator sends an 'ESCC LG Monthly Reconciliation spreadsheet' to the Pensions Manager. Upon receipt, the Pensions Manager completes a reasonableness check against the previous month's figures. It has been noted, however, that the check of reasonableness is not evidenced.	3. We recommend that, in order to provide an audit trail, the spreadsheet is initialled and dated after it has been checked for reasonableness.	The spreadsheet will be printed out each month and it will be signed, dated and filed by the Pensions Manager, and it will be kept for 12 months (the current financial year).	Pensions Manager	Monthly

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
It has come to our attention, from Internal Audit's work, that a member of staff had 'level 5' access rights despite her moving departments and no longer requiring access to AXISe. Untimely non-removal of users no longer requiring access could result in unauthorised changes to data (especially given the high level of access rights involved).	4. We recommend that the user access reports are regularly reviewed to ensure all access granted is appropriate and necessary.	The person referred to has left employment with ESCC and as such access to all systems has been revoked.	Ola Owolabi	As Needed
Internal Audit found that the LGPS 31 forms for the admitted bodies sampled were not physically signed on three occasions; instead the name had been typed into the 'certified correct' field. This could mean the person whose name appears in the box did not actually certify the figures. One return had been sent in as a spreadsheet and one as a word document. These could potentially have been edited to show incorrect figures after they have been submitted. Additionally, it was noted that some of the forms had been incompletely populated. There is a risk that the forms are being signed without appropriate checks of the figures, leading to incorrect or incomplete data in the pension fund's accounts.	5. We recommend that all LGPS31 forms are rejected unless they are physically signed or at least PDF'd by the person who electronically authorised them and immediately sent to the Council. These should also be rejected if they are incompletely or incorrectly populated.	The Pension Fund Third Party administrators will update procedures to request employers to ensure appropriate signatures are presented on the submission of the LGS31 form. The LGS31 forms will be forwarded advising rejection and return to employers if necessary.	Third Party administrators	March 2013

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the financial statements:

Unadjusted misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Management comments
Factual misstatements					
Misclassification of working cash as investment assets					
- Current assets			977		Immaterial classification misstatement.
- Investment assets			(977)		
Judgemental misstatements					
None					
Projected misstatements (extrapolation of errors)					
None					
Total net misstatements	0	0	0	0	
Total net misstatements					
- Net overstatement of costs		0			
- Net understatement of net assets				0	

Appendix C: 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 Interim 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

11 September 2012

Dear Sirs

Financial statements of East Sussex County Council for the year ended 31 March 2012

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 2012 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 Interim Director of Corporate Resources and s151 Officer my responsibilities for the Statement of Accounts, which include 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

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

(a) Pension fund 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. These assumptions include:

• Rate of inflation	2.5%
• Rate of increase in salaries	4.8%
• Rate of increase in pensions	2.5%
• Rate for discounting scheme liabilities	4.8%

- Expected return on assets 5.9%

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

(b) 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.

(c) Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2012, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

(d) Cash and cash equivalents

I am satisfied that the Council's RBS Money Market Fund was held for short term cash flow purposes at 31 March 2012, and is therefore correctly defined as a cash equivalent, and that the NatWest call account is no longer held for that purpose and is therefore correctly defined as an investment.

Plans or intentions

I confirm that 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 all known 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.

Related parties

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

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

I believe that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

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 and have considered a future period of at least one year from the date on which the financial statements will be approved.

Comparative information

I confirm that, in respect of the restatements to implement the accounting policy changes for heritage assets and investments / cash and cash equivalents, the adjustments relate to changes in accounting policies as I believe that the new accounting policies are more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policies.

INFORMATION PROVIDED

Completeness of information

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given 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.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal control

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

I have communicated to you all significant deficiencies in internal control 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 involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

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

Compliance with law and regulations

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

Related parties

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

Liabilities, contingent liabilities or 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.

Yours faithfully

Andrew Travers

Interim 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 Statement of Accounts, which include the financial statements. The Interim Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Interim Director of Corporate Resources for not correcting these misstatements, and we consider them to be immaterial to the view given by 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

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

East Sussex County Council

Statement of Accounts

2011/12

Contents	Page

Notes to the Accounting Statements Index

Foreword

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; and
- 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 2011/12.
- 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 2011/12. However, any significant events or developments that occur between 31 March 2012 and the date on which the Statement of Accounts is signed by the Director of Corporate Resources must also be reported.
- The Core Accounting Statements, comprise:

  ~ The Movement in Reserves Statement (MiRS) - 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 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.
  ~ The Balance Sheet – 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.
  ~ The Cash Flow Statement – this summarises the changes in cash and cash equivalents of the Council during the reporting period.

- 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 2011/12, assets, and liabilities as at 31 March 2012.
- 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 financial reporting requirements and accounting policies

The Code of Practice is based on International Financial Reporting Standards (IFRSs), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

The Code of Practice on Local Authority Accounting 2011/12 (the Code) highlights the following most significant key changes in accounting practice:

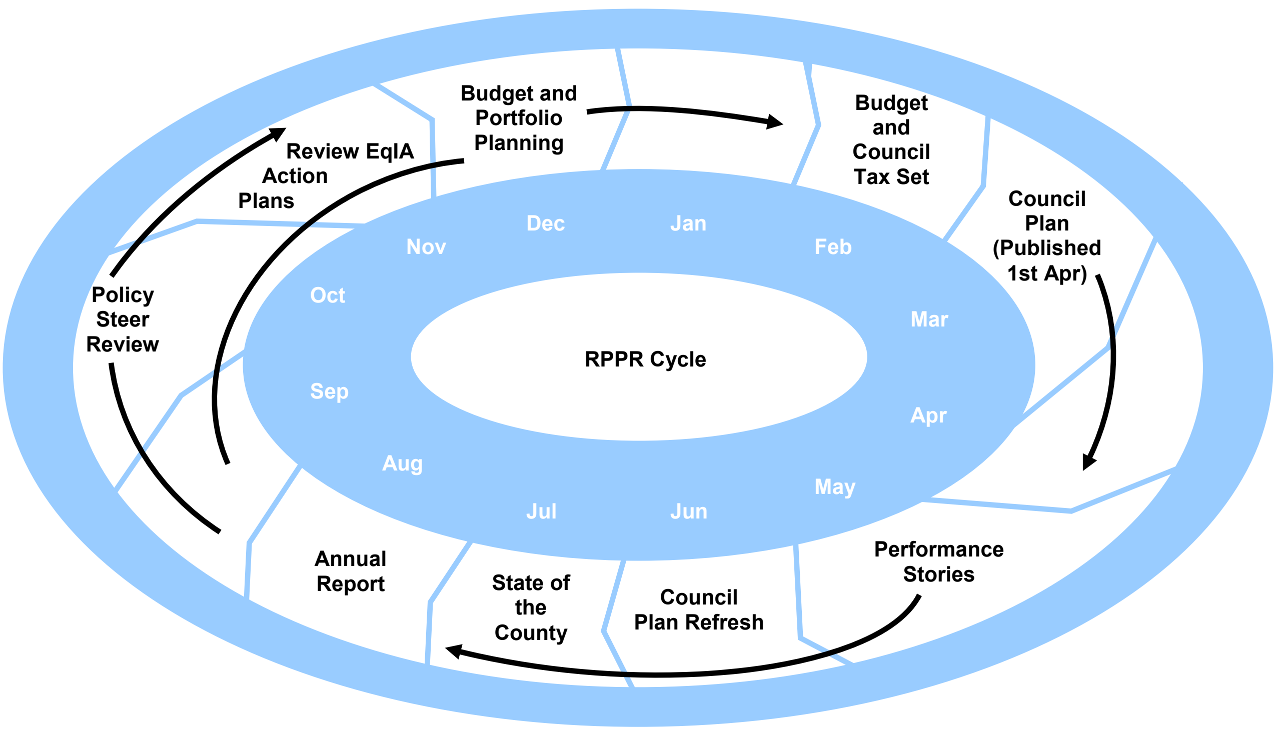
- Additional disclosures in respect of remuneration and exit packages and disclosure of remuneration and pension contributions in respect of senior employees.
- Within the Annual Governance Statement, an authority includes a specific statement on whether the Council's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*
- Amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities.
- Adopts the requirements of FRS 30 *Heritage Assets* - Heritage assets are carried at valuation where possible, and additional disclosures are required.

- Clarifies that financial instrument disclosures are required in respect of leases and PFI, and similar schemes.
- Clarification that where an authority is a party to a joint venture, does not have joint control of that joint venture, but does has significant influence, the interest in the joint venture should be accounted for as if it were an associate in line with IAS 31.
- Accounting for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions.

Financial Report

Setting the Revenue Budget for 2011/12 – the 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 (RPPR). This makes it explicit that we need 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 ourselves across the three elements of RPPR to deliver the best possible value for money. RPPR is the Council's business planning process, the key building blocks of the RPPR process are:

- **Our Promise and Policy Steers** are set by the Council for each Cabinet portfolio and represent a medium term strategy and statement of priorities to guide the business planning processes.
- **Council Plan** shows how we will deliver the Policy Steers through a series of targets that are monitored for progress through the year and will include **Medium Term Capital and Revenue Plans** – a five-year capital programme is updated annually and council tax and savings targets will be set over a three year period.
- **Portfolio Plans and Service Plans** cover a three year period with annual performance targets. In addition, a strategic overview will identify how the Policy Steers will be delivered within allocated resources in the long-term. Unit costs, service plans, customer feedback, risk management, Equality Impact Assessment (EqIA) actions, current performance, and staff involvement will all be considered.
- **Individual Work Plans** identify the targets for the year ahead for each member of staff to help deliver service plan targets. These are an excellent tool for managing staff performance. All staff should be able to see how their own personal objectives link through to the strategic objectives of the Council – **The Golden Thread.**
- **Risk Management** ensures that risks are identified, assessed, and managed at an appropriate level depending on their potential impact. Risks could include information from EqIAs; where outcomes are prioritised in relation to timing and cost implications.



All these building blocks are delivered through processes involving appropriate Chief Officer Management Team (COMT) / Cabinet / Council discussion and decision. Work started on developing the draft budget strategy for 2011/12 during the summer of 2010. This involved officers and Cabinet Members together looking at overall Council expenditure.

Income

Our 2011/12 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant (RSG), Council Tax Freeze Grant, Local Services Support Grant, New Home Bonus 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 Council's Formula Grant for 2011/12 was £117.8m; effectively an increase of £17.7m. The Council estimated a loss of various grants including the following changes to grants in 2011/12:

- £10.1m of various Children's Services grants – outside Dedicated School Grant and outside Formula Grant changes compared to the original equivalent quantum for 2010/11.
- In the Community Safety related area, a loss 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, the expected grant (at £17.4m) to cover the negotiated recent transfer of responsibilities from Health has been received in line with expectations.
- The Government has also indicated that there will be additional resources – via local Primary Care Trusts – for Adult Social Care subject to "agreed plans" for its use, which could amount to £6.9m gross.
- Finally, the Council received £6.0m as a base grant to enable the Council to set a zero Council tax increase for 2011/12.

For residents there has been no increase in the council tax for 2011/12 (2010/11 was 2.7%) which was consistent with the published strategy of reducing the annual increase in tax.

Setting the Revenue Budget for 2011/12 – the final budget strategy

The final budget strategy was presented to Council in February 2011. Overall, the budget set for 2011/12 targeted growth to our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

In setting the budget for 2011/12, the County faced cost increases of £20.2m just to maintain service levels. After allowing for the general grant increase of £17.7m, planned increase in council tax (and Collection Fund balances) of £3.2m, and Council tax freeze grant of £6.0m, the net cash reduction available for services amounted to (-) £7.8m. Thus, savings of £28.0m were required to balance the budget.

The key steps that we took to make savings included:

- Reduced administration and procured services more cost effectively from our suppliers.
- Inflationary increases available only for priority services.
- Careful use of all our specific grant funding and targeted priority services.
- Managed our money prudently, which contributed to interest earned on cash balances.
- Minimised the cost of borrowing to fund our capital programme.

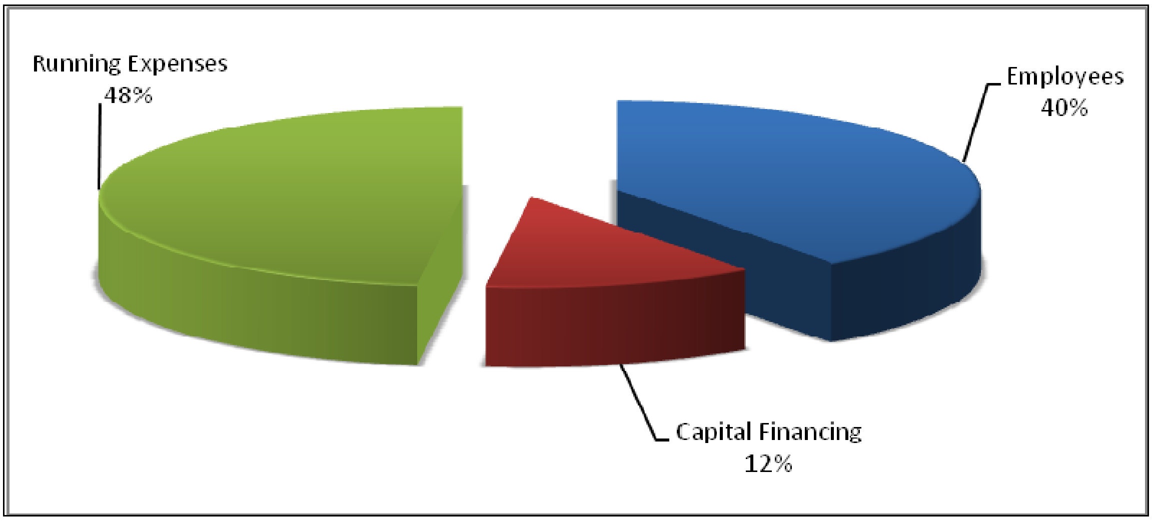
The key inflation assumptions for 2011/12 were a pay freeze of 0% awards, and 2% for general cost inflation.

So how much was spent on the revenue account

The Comprehensive Income and Expenditure Statement (CIES) at page 21 shows how the Council money is spent and where the money comes from, as summarised in the charts below.

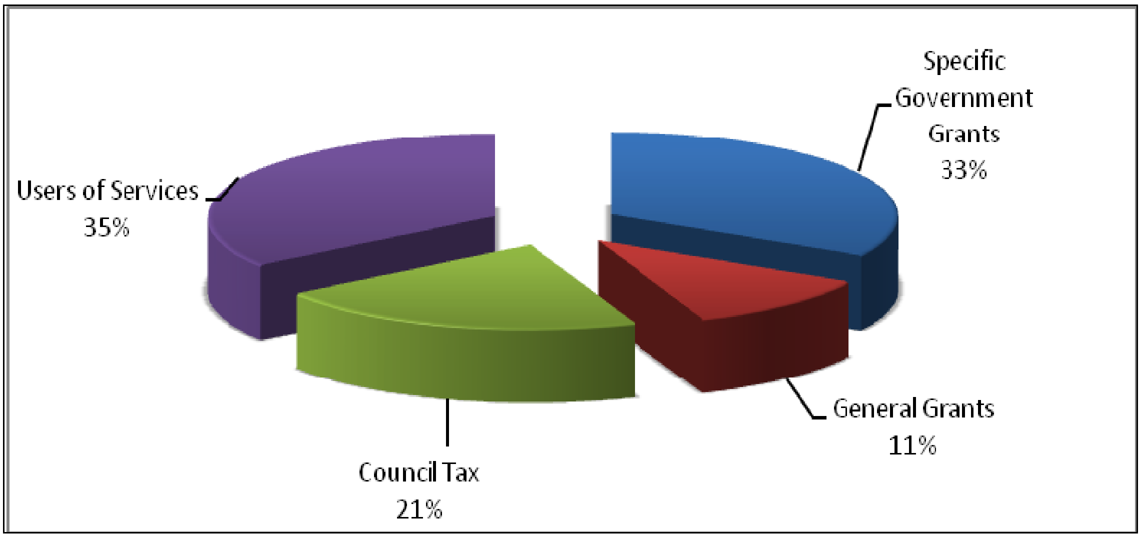
In total, our net revenue expenditure was £366.1m. The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 40% (46% in 2010/11) 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 48% (45% in 2010/11), 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 12% (9% in 2010/11).

Where the money came from



The chart shows that 33% of our income came from Specific Government Grant (31% in 2010/11), 21% of our income came from residents through the council tax (20% in 2010/11), 11% of our income came from general grants, including business through the Non-Domestic rates (11% in 2010/11), and 35% of our income came from users of our services (38% in 2010/11).

Analysis of the Revenue Budget

The table below sets out the revenue budget for 2011/12 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate	Actual Outturn	Variation
	£m	£m	£m
Adult Social Care	157.1	152.7	4.4
- Supporting People	12.3	10.4	1.9
- Community Safety	1.0	0.9	0.1
Governance and Community Services	14.9	13.7	1.2
Children's Services Department	96.4	97.4	(1.0)
Corporate Resources	12.9	12.2	0.7
Economy, Transport & Environment	75.8	74.9	0.9
Service Spend (Ex DSG Related)	370.4	362.2	8.2
DSG Related (i.e. Schools)	-	(4.5)	4.5
Service Spend (Incl. DSG Related)	**370.4**	**357.7**	**12.7**
Treasury Management, etc.	(4.7)	(5.5)	0.8
Transfers to / (from) Balances	-	0.8	(0.8)
	365.7	**353.0**	**12.7**
New Home Bonus Grant to fund one-off	-	0.4	
Transfers to / (from) Carry Forward Reserve	-	12.7	
Net Budget	**365.7**	**366.1**	
Financed from:			
Revenue Support Grant	27.8	27.8	
Non-Domestic Rates	90.0	90.0	
Council Tax	239.2	239.2	
Adjustments for earlier years	1.1	1.1	
Council Tax Freeze Grant	6.0	6.0	
Local Services Support Grant (LSSG)	1.6	1.6	
New Home Bonus Grant	-	0.4	
	365.7	**366.1**	
Balances:			
Opening	7.5	7.5	
Added / (withdrawn) during the year	0.7	0.8	
Closing	**8.2**	**8.3**	

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 £353.0m during 2011/12, based on the total cost of providing services including charges for support services, and use of assets. The current estimate of service spending and the net budget for the year was £370.4m. Total actual expenditure of £362.2m was 2.21% below the current estimate.

The overall service underspend of £8.2m against directorates' budgets represents just 1% of the original gross budget of £843m. 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 2012/13.

The Council's general balance of £8.3m at the year end is in line with the target minimum level of 2.25% (actual 2.27%) 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 Service Reporting Code of Practice (SeRCOP) 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 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, and regard to LAAP 77 'Local Authority Reserves and Balances'.

Details of the Council's earmarked reserves can be found on page 45, Note 10 to the Accounting Statements. Current reserves are £148m. Of this £70.1m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility. Now that the Newhaven Energy Recovery Facility (ERF) facility is now operational, 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 -

- Some of the cost of the £295m capital programme;
- Insurance liabilities reserve to manage litigation and other corporate risks not otherwise recognised;
- Departmental budget reserve to enable the effective management of the medium-term financial strategy including responding to the most urgent corporate priorities; and
- School reserves set aside balances in respect of individual delegated school budgets for the anticipation of future budget pressures usually arising from pupil variation, and to fund schools' specific projects.

Certain reserves are held to manage the accounting processes for capital long term 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 2012 totalled £6.1m (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 strategic financial planning, 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, who in considering specific reserves will have regard to matters relevant in respect of each reserve and advise the Council accordingly.

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 Bexhill Hastings link road, and new academies) 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 is planning for cuts in government revenue grants, which 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, highways and transportation schemes. For each service area, capital bids for new projects are made in accordance with a plan, framework, and timetable.

In 2011/12, the Council spent £58.7m (£32.3m net of external funding) on roads, schools, and other capital projects. The original budget at the start of the year was £155.7m. 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) 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 £71.1m, of which £31.9m was supported by scheme specific resources giving a net provision of £39.2m.

The underspend of £6.9m compared to the revised net provision represents expenditure in advance of 2012/13 budgets of £1.6m, offset by scheme delays (slippage) of £8.5m.

The larger schemes during the year included the new archive and record office 'The Keep', structural maintenance of roads throughout the county, Warwick House, the Academies programme, and many other improvements to schools and roads.

During 2012/13, the Council plans to invest £168.2m, which will be funded as follows:

	£m
Borrowing	21.0
Scheme Specific grants and contributions	83.8
Non specific grants	9.4
Use of reserves	41.2
Revenue contributions	12.8
Total resources	168.2

East Sussex Pension Fund

During the year to 31 March 2012, the overall increase in the Fund due to positive performance in equity and other markets was estimated to be 3.2% compared to the average estimated increase in Local Authority funds of 2.6% 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 increased from £227.9m at the start of the year to £300.2m at 31 March 2012. Note 45 to the Accounting Statements provides detailed information.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2011, the actuary assumed a discount rate of 2.6% 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 2012, the actuary has advised that a rate of 2.2% real (4.8% nominal) is appropriate. All other things being equal, the change in the real discount rate over the year has resulted in an increase in liabilities measured at today's prices of around £77m, included in the actuarial loss recognised for the year in the Comprehensive Income and Expenditure Statement.

- Some of the loss mentioned above was offset by a change to the salary growth assumption this year with the extension of public sector pay restrictions until 31 March 2015. All other things being equal this acts to reduce the value placed on the Council's liabilities at 31 March 2012 by £72.3m

- Asset returns on the Fund in the year to 31 March 2012 were poorer than expected for the Council. As noted above, the increase in the Fund's assets due to investment performance was estimated to be 3.2% per annum, compared to the expected return on assets at the start of the year of 6.9% per annum.

Based on the current benefit 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 £418.2m (employee members), £170.9m (deferred pensioners) and £423.5m in respect of pensioners as at 31 March 2012. There is also a liability of approximately £36.8m in respect of LGPS unfunded pensions and £42.4m in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

Treasury Management Borrowing Facilities and Investments

The strategy for 2011/12, agreed in January 2011 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, it is impossible in practical terms to eliminate all credit risk. This Council seeks to be as prudent as possible. 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).

2011/12 and beyond

Local authorities in the United Kingdom will continue to keep their accounts in accordance with 'proper practices'. CIPFA/LASAAC continue to considered future changes to IFRS for Local Government, as it reinforces the drive to improve financial reporting and enhance accountability for public money.

~ Budget and Local Government Finance

Members are aware of the Government's commitment to reduce the national fiscal deficit over the period of the Parliament and the consequent funding reductions for Local Government announced in the Comprehensive Spending Review. In addition to the £8.4 million of in-year cuts in 2010/11, ESCC has to save £100 million over the four years 2011/12 – 2014/15, with £37 million of savings already delivered in the first year (2011/12). This includes £20 million from Children's Services due to significant cuts in various specific grants and other pressures such as increased demand for child protective services.

- **Local Services Support Grant -** The 2010 Spending Review announced that the number of Government grants paid to local authorities would be streamlined from over 90 to fewer than 10. The Local Services Support Grant is administered and paid by DCLG through 12 monthly payments and nationally equates to £309 million in 2011/12.
- **Resource Review -** The Government is conducting a major review into the way local authorities are funded as part of the localism agenda. The aim is to give authorities greater financial autonomy from Central Government. The Local Government Resource Review began in March 2011 with a consultation to find out the best way to share the business rate income collected by local authorities. The Government intends that authorities will keep the business rates they collect and abolish the general grants regime. The policy aim is to encourage local business growth and to scale back Government involvement in annual grant decisions.

~ Resource Perspective

The resources available to the Council are becoming ever tighter and underlying pressures are increasing. Running alongside this is the volatility and contraction of the wider economy. The key response to the greater risks that are faced is the need to further strengthen financial control mechanisms. The Revenue Budget seeks to establish a balanced three year position for subsequent years using detailed plans to cover the whole period of the current Government spending review. By developing proposals that span all three years, this has enabled service transformation plans to be properly considered, developed and delivered over the medium term and to give the Council more stability when setting out proposals within future budget rounds.

The cash limits reflect best assumptions based upon published Government Spending Review detail. They have continued to be developed on that basis – on the best information currently available – but with a clear recognition that the major changes on the horizon from the Resource Review and worsening national finances will inevitably require a reappraisal of plans for 2013/14 onwards; we need to wait for more secure working detail as to their effects. Consistent with the RPPR architecture, Service Areas are used as the basis for integrating financial and performance information and so allow for finer choices to be made about how resources are allocated and how services are commissioned.

~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 2011/12 Accounting Statements exclude the assets of schools that have gained academy status.

~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". The Council's Climate Change Strategy aims to achieve an annual reduction of 3% in CO2 emissions. The Council has committed a number of school insulation projects, voltage management projects in a library and a school and a second LED traffic bollards project. This year the Council has really started to recycle the funds effectively and make the fund work for them.

~ Energy Recovery Facility

The ERF at North Quay, Newhaven is now fully operational. The facility treats household waste that is not reused, composted, or recycled and generates electricity from it. The electricity produced is sold to the National Grid and is enough to supply 25,000 homes. The ERF can process 210,000 tonnes of waste per year, which would otherwise need to be transported long distances, to be put in a landfill site.

~ Public Health

Local authorities are taking on more responsibilities for the health and wellbeing of their local communities under the Government's ongoing healthcare reforms. Public health is responsible for improving and protecting health and reducing health inequalities. Under new legislation, responsibility for many aspects of public health will transfer to councils in April 2013. A new public health policy steer has also been agreed, which will be 'to improve the health and well-being of our communities, reduce health inequalities, and improve life expectancy in East Sussex'.

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 operates. 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.

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 accompanies this Statement of Accounts, covers more than just financial matters and is set out in full on pages 17 to 18.

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

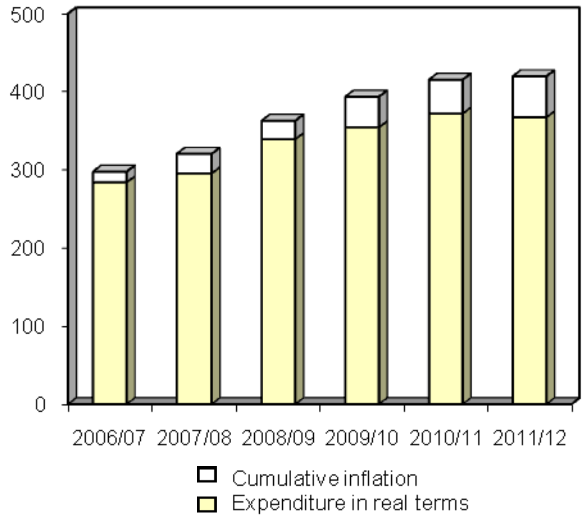
The 2011/12 Audit Opinion and Certificate is available on pages 14 to 16.

Andrew Travers

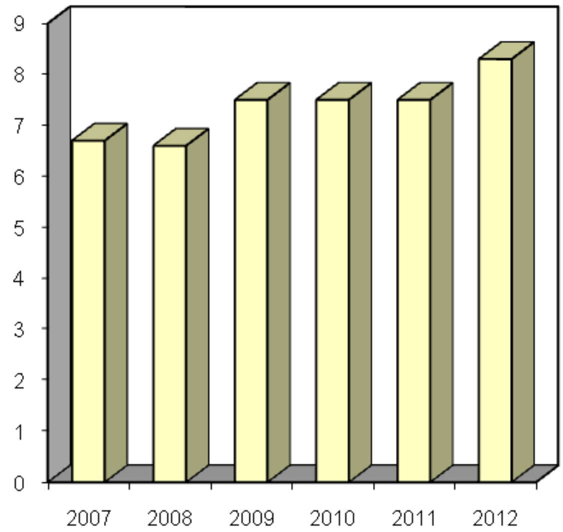
Interim Director of Corporate Resources

11 September 2012

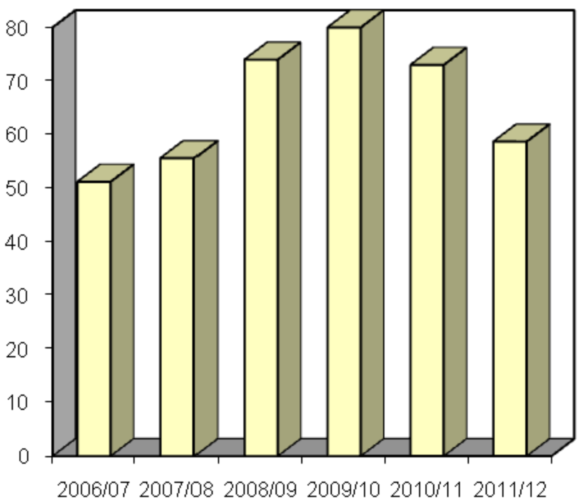
Net Revenue Expenditure in real terms £m



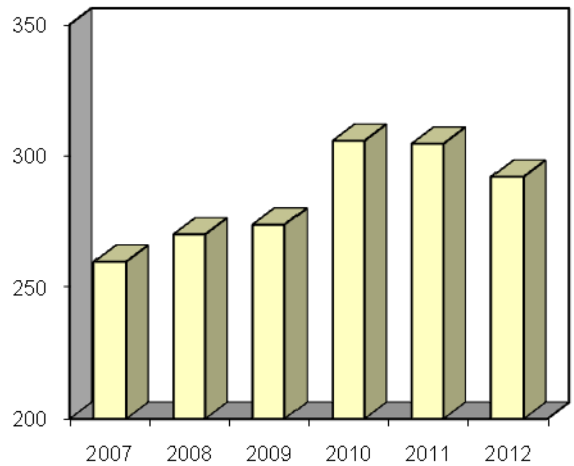
Revenue Balances at 31 March £m



Capital Expenditure £m



Capital Financing Requirement at 31 March £m



Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim 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 Interim Director of Corporate Resources

The Interim 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 2012.

In preparing this Statement of Accounts, the Interim 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 Interim 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.

I certify that the Statement of Accounts gives a true and fair view of the Councils financial position and its income and expenditure for the year ended 31 March 2012.

Andrew Travers

Interim Director of Corporate Resources
11 September 2012

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

Opinion on the Council’s financial statements

We have audited the financial statements of East Sussex County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Interim Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Interim Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Interim Director of Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword by the Interim Director of Corporate Resources 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of East Sussex County Council’s affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Interim Director of Corporate Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Interim Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Interim Director of Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword by the Interim Director of Corporate Resources 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 financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

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

Respective responsibilities of the Council and auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, 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 2012.

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 2011, 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 2012.

Certificate

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

Leigh Lloyd-Thomas
for and on behalf of PKF (UK) LLP
London, UK
11 September 2012

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

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2012 and up to the date of the approval of the Statement of Accounts.

3. Review of effectiveness

The 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, the Deputy Director of Finance, and the Finance and Resources Group;
- 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 Council Plan that sets 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 performance and 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;
- compliance with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Finance Officer. For the year 2011/12, the Director of Corporate Resources was the s151 Officer and the Chief Finance Officer. For an interim period, from 1 April 2012 to 2 July 2012, the Council has assigned the statutory role of s151 Officer and Chief Finance Officer (under the Local Government Finance Act 1988) to the Deputy Director of Finance. Whilst the Deputy Director will undertake those statutory duties some of the broader responsibilities of the Chief Finance Officer set out in the CIPFA Statement rest with the Interim Director of Corporate Resources (who has relevant experience as a s151 Officer and Chief Finance Officer). From 3 July 2012 the Interim Director of Corporate Resources was appointed to the statutory role of s151 officer;
- 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 Council has in place satisfactory governance arrangements, including a satisfactory system of internal control, both of which are operating effectively.

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

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

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities. The 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 any development of revised partnership working arrangements for South East Seven Partnership, including creation of companies;
- To implement the actions identified in the Regulation of Investigatory Powers - RIPA inspection report 2011/12;
- To review how the controller of premises role is managed;
- To update the scheme of delegation to reflect changes in structure and responsibility;
- To consider the impacts of the Localism Act including the implementation of a revised standards regime for councillors, community right to challenge and assets of community value;
- To carry out a review to assess the Council's roles, responsibilities and powers in schools ;
- To implement a revised Employee Code of Conduct for all Council staff;
- To keep under review changes in Public Audit and role of the National Audit Office.

The Council Plan identifies a number of areas (as set out below) that have governance implications and these will be monitored through the Council Plan:

- *Provide leadership to ensure a smooth transition to the changes to health provision required in East Sussex by the Health and Social Care Act;*
- *Develop a plan to set out how we will improve customer care and customer access;*
- *Improve the effectiveness of the Council's procurement by establishing a procurement partnership with Surrey County Council;*
- *Develop and establish Healthwatch East Sussex, the local consumer champion for people who use and need health and social care services;*
- *Ensure a successful transition in relation to the change in responsibility for public health;*
- *Support arrangements for the establishment of Clinical Commissioning Groups in 2012-13;*
- *Ensure effective equalities policies and procedures in place.*

The Council has also identified a need to develop its approach to transparency and to respond to the Government's open data agenda. This will be managed and monitored by the Performance Assistant Directors Group.

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

Cllr Peter Jones
Leader and Chairman of the Governance Committee
11 September 2012

Becky Shaw,
Chief Executive
11 September 2012

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 Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is 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	Schools Balance	Capital Receipts Reserve	Earmarked reserves	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 (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 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 before Transfers to Earmarked Reserves	**23,710**	**-**	**2,154**	**-**	**-**	**25,864**	**346,060**	**371,924**
Transfers to Earmarked Reserves (Note 10)	(23,710)	1,765	-	16,340	5,605	-	-	-
Increase 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**

	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked reserves - General	Earmarked reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
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**
Movement in Reserves during 2011/12									
Deficit on provision of services	(22,013)						(22,013)		(22,013)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(50,706)	(50,706)
Total Comprehensive Income and Expenditure	**(22,013)**	**-**	**-**	**-**	**-**	**-**	**(22,013)**	**(50,706)**	**(72,719)**
Adjustments between accounting basis & funding basis under regulations (Note 9)	(10,440)	-	1,553	53,916	-	-	45,029	(45,029)	-
Net Decrease before Transfers to Earmarked Reserves	**(32,453)**	**-**	**1,553**	**53,916**	**-**	**-**	**23,016**	**(95,735)**	**(72,719)**
Transfers from Earmarked Reserves (Note 10)	33,216	3,238	-		(38,621)	2,167	-	-	-
Decrease in Year	**763**	**3,238**	**1,553**	**53,916**	**(38,621)**	**2,167**	**23,016**	**(95,735)**	**(72,719)**
Balance at 31 March 2012 (Note 25 and 26)	**8,303**	**16,756**	**7,925**	**53,916**	**140,849**	**7,772**	**235,521**	**237,725**	**473,246**

Comprehensive Income and Expenditure Statement

This statement shows the Council's accounting cost in the year of providing services in accordance with general accepted accounting practices rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. It summarises the resources that have been generated and consumed in providing the functions for which the 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.

2010/11				2011/12		
Gross Expenditure Restated £000	Gross Income Restated £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
534,592	(416,480)	118,112	Education and children's services	495,098	(388,110)	106,988
14,760	(3,348)	11,412	Cultural & related services	13,796	(2,382)	11,414
34,244	(12,694)	21,550	Environmental & regulatory services	25,428	(6,717)	18,711
2,608	(1,144)	1,464	Planning services	2,816	(577)	2,239
240,536	(62,810)	177,726	Adult social care	238,168	(70,729)	167,439
49,871	(8,691)	41,180	Highways and transport services	48,914	(10,688)	38,226
-	-	-	Concessionary Fares – service transferred from district councils.	7,451	(77)	7,374
493	(208)	285	Housing services	1,649	(177)	1,472
4,018	(1,534)	2,484	Central services to the public	2,782	(1,509)	1,273
2,541	(72)	2,469	Corporate and Democratic Core	3,282	(36)	3,246
-	(1,266)	(1,266)	Non Distributed Costs	4,426	(140)	4,286
-	(112,774)	(112,774)	Exceptional item – Pension Past Service Gain - Note 45	-	-	-
883,663	**(621,021)**	**262,642**	**Cost of Services**	**843,810**	**(481,142)**	**362,668**
28,715	-	28,715	Other operating expenditure - Note 11	85,711	-	85,711
28,487	(2,858)	25,629	Financing and investment income and expenditure - Note 12	21,774	(2,876)	18,898
-	(423,006)	(423,006)	Taxation and non-specific grant income - Note 13	-	(445,264)	(445,264)
		(106,020)	**(Surplus) or Deficit on Provision of Services**			**22,013**
		(80,042)	Surplus on revaluation of non-current assets – Note 26			(23,198)
		(185,862)	Actuarial (gains)/losses on pension assets / liabilities – Note 45			73,904
		(265,904)	**Other Comprehensive Income and Expenditure**			**50,706**
		(371,924)	**Total Comprehensive Income and Expenditure**			**72,719**

Balance Sheet

The 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 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'

31 March 2011 Restated			31 March 2012
£000		**Notes**	**£000**
902,901	Property, Plant & Equipment	14	925,358
31	Heritage Assets	55	13
1,508	Investment Property	15	1,381
3,341	Intangible Assets	16	2,225
1	Long Term Investments	17	1
31,729	Long Term Debtors	20	1,082
939,511	**Long Term Assets**		**930,060**
179,603	Short Term Investments	17	271,132
1,950	Assets Held for Sale	22	4,918
4,417	Payments in Advance		4,511
961	Landfill Allowances	54	-
136	Inventories	18	126
26,093	Short Term Debtors	20	30,444
42,695	Cash and Cash Equivalents	21	13,889
255,855	**Current Assets**		**325,020**
(14,705)	Income in Advance		(7,642)
(1,304)	Short Term Borrowing	17	(5,643)
(11,743)	Accrued balance at bank and for third parties	21	(16,432)
(653)	Provisions	24	(1,023)
(81,882)	Short Term Creditors	23	(80,963)
(110,287)	**Current Liabilities**		**(111,703)**
(227,865)	Liabilities related to defined benefit pension schemes	45	(300,200)
(5,601)	Provisions	24	(5,099)
(241,262)	Long Term Borrowing	17	(264,261)
(32,085)	Capital Grants & Contributions Receipts in Advance	37	(4,836)
(32,301)	Other Long Term Liabilities	41	(95,735)
(539,114)	**Long Term Liabilities**		**(670,131)**
545,965	**Net Assets**		**473,246**
212,505	Usable Reserves	25	235,521
333,460	Unusable Reserves	26	237,725
545,965	**Total Reserves**		**473,246**

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2012 and its Comprehensive Income and Expenditure Statement for the year then ended.

Andrew Travers,
Interim Director of Corporate Resources, 11 September 2012

The Governance Committee approved the Statement of Accounts on 11 September 2012

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.

2010/11 £000 (Restated)		2011/12 £000
(106,020)	Net deficit / (surplus) on the provision of services	22,013
14,210	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(164,231)
53,461	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	81,160
(38,349)	Net cash outflow from Operating Activities (Note 27)	(61,058)
35,363	Investing Activities (Note 28)	114,048
4,516	Financing Activities (Note 29)	(19,495)
1,530	Net decrease in net cash and cash equivalents (Note 21)	33,495
(32,482)	Cash and cash equivalents at the beginning of the reporting period (Note 21)	(30,952)
(30,952)	**Cash and cash equivalents at the end of the reporting period (Note 21)**	**2,543**

Note – The Cash and cash equivalents figures above include 'Accrued balance at bank and for third parties'. The overall balance at 31 March 2012 is a net cash overdrawn position of £2.543m.

Note - Adjustments have been made to Non-cash movements, Investing Activities and Financing Activities from the 2010/11 Statement of Accounts. The cash and cash equivalents opening balance, net decrease in the year and closing balance have not changed. There is no change within the underlying transactions, a change in presentation has occurred as a result of the Council adopting and using the CIPFA Cash Flow Statement toolkit as part of its accounts closure process.

Notes to the Accounting Statements

1. Authorisation of the Statement of Accounts

Authorisation of Statement of Accounts - These accounts were authorised for issue by Andrew Travers, Interim Director of Corporate Resources, and the Statement of Accounts (approved on 11 September 2012) is published with an audit opinion.

2. Accounting Policies

i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provides legally binding guidance on Local Authority Accounting. The Statement of Accounts, which include the accounting statements for East Sussex Pension Fund, summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS). 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.

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;
- Accruals are generally not raised where amounts are immaterial, although managers' discretion may be used. This exception has no material effect on the financial statements.

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 Code of Practice defines cash equivalents as highly liquid investments that are readily convertible to known amounts of cash and any investment that could be recalled the same day without penalty, which 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 accounts that are held for cash flow requirements 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 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

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.

Note 56 reports on the impact on the accounts of the adoption of FRS 30 Heritage Assets in 2010/11.

Note 5 reports on the impact on the Comprehensive Income and Expenditure Statement relating to a change in accounting treatment of Waste PFI contributions received from Brighton & Hove City Council.

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 and Intangible 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 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 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. These costs are charged on an accruals basis to the appropriate service 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:

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 2011, the actuary assumed a discount rate of 2.6% 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 2012, the actuary has advised that a rate of 2.2% real (4.8% 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 the Council's borrowings, 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 are 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 soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service line) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest will be credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provision require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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.

xv. Inventories

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.

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 (This is not currently applicable to the Council)

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 Service Reporting Code of Practice 2011/12 (SeRCOP). 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 SeRCOP 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 Equipment

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.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – included within Land and Building (e.g. Schools caretaker houses);
- 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 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

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;

- For example, if a new roof is significant in relation to the total value of the asset, we would derecognise part of the existing carrying value of the building and then recognise the new roof. It would then be depreciated (in the following year) over the economic useful years.

- 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 carrying value. 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 life expectancies of the assets and the depreciation 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	Not depreciated and the assets are 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.

Any payments towards the operator's capital investment before the assets become operational (and recognised as Property, Plant and Equipment and finance leases) are included in debtors as a prepayment. When the asset is made available (i.e., operational), the prepayment is written out against the set aside PFI reserve.

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 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 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 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 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 Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

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. 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. The Council is also required to recognise its share of council tax arrears, bad debt allowances, overpayments and prepayments in its Balance Sheet.

xxxii. Heritage Assets

The Council's Heritage Assets are managed by East Sussex Record Office, which 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, increasing the knowledge, understanding and appreciation of the Council's history and local area, ensuring their preservation and providing public access to information recording the county's 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 us are on deposit.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant, and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also present below. The Council's collections of heritage assets are accounted for as follows.

Art Collection

- The art collection is reported in the Balance Sheet at insurance replacement value as an estimate of market value. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence, the Council does not consider it appropriate to charge depreciation.
- Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost, and donations are recognised at cost and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Equipment and other Artefacts

- The Council considers that obtaining valuations for the vast majority of equipment and other artefacts would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. Other than the small number of items that have been acquired recently, i.e., bequeathed to the Council, the Council does not recognise this collection of heritage assets on the Balance Sheet.
- The Council own the contents of Bentley Museum, which is recognised in the Balance Sheet in accordance with a valuation carried out by Sotheby's.
- Other collections held by the ESCC Records office are not recognised in the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all items in the collection are believed to have a value of less than £500 and as far as the Council is aware no individual item is worth more than £20,000. The majority of the collection was acquired by donation over a century ago.
- In addition, there is wealth of material available for study in East Sussex, thus drawing attention to groups of records, i.e., the records of businesses, and of societies; and the existence of some deposits, which are not yet fully listed. Again, the Council considers that due to the lack of comparable market values it is not possible to provide either cost or valuation information for either the intangible or the tangible element of these assets. Consequently, the Council does not recognise the assets on the Balance Sheet.

Archaeology

- The Council does not consider that reliable cost or valuation information can be obtained for the items held by the Records Offices as the Council's Archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.
- The Council's acquisitions principally relate to the collection donated assets. The Council does not (normally) make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council general policies on impairments.

3. *The International Financial Reporting Standards*

The Accounting Statements for 2011/12 are prepared on an IFRS basis. The transition date to IFRS for Local Government was 1 April 2009 and the Council prepared its opening Balance Sheet at that date.

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

For 2011/12, the only accounting policy change that needs to be reported relates to the adoption of amendments to IFRS 7 *Financial Instruments: Disclosures* by the Code of Practice on Local Authority Accounting which will require a change of accounting policy from 1 April 2012. The amendments will assist the users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council's financial position. It is likely that this standard will not have a material impact on the financial statements of local authorities.

5. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Accounting Statements 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 and IAS 40 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. 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. In the prior year the Council 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. In the current year the Council has made a judgement that a grant or contribution will be classed as conditional if the terms include a repayment clause that require that the grant monies will be repaid if not used.

- The Council in its capacity as the Pension Fund Administering Authority has in place (Financial guarantee contracts) arrangements requiring the Council to make specified payments to reimburse the Pension Fund for a loss it would incur if the 'Admission Body' fails to make payments due under the admission into Pension Fund Scheme Agreement. The Admission Body has agreed to deposit a sum of money (£54,000) with the Council 'Administering Authority' in order to meet a level of risk exposure arising by virtue of any premature termination, or cessation, of the Admission Agreement which has been actuarially assessed to the satisfaction of the Council 'Administering Authority', the Scheme Employer and the Admission Body. This agreement is in place for policy reasons, and in ensuring the Council continue to provide pension fund administration.

- Schools Non-Current Assets – CIPFA has set up a review group to develop guidance on how to account for schools in accordance with accounting standards on a consistent basis. The conclusions are likely to be included in either the 2012/13 or 2013/14 Code of Practice. In the meantime, Authorities must determine the appropriate treatment for their particular circumstances based on the requirements of the 2011/12 Code. The Council's treatment of Schools non-current assets is to include Community and Voluntary Controlled Schools in the Statement of Accounts but to exclude schools that have Academy, Foundation or Voluntary Aided status.

- During 2011/12, the Council reviewed its previous accounting treatment of PFI contribution from B&HCC concerning the joint Waste Contract agreement taking into consideration the features of an 'Agent' and 'Principal' as contained within the CIPFA Code. While the agent criteria are not wholly applicable to the relationships between the Council and B&HCC, following internal review, it has been agreed that both B&HCC and ESCC are jointly and severally liable to the Contractor upon the terms of this Contract. Therefore, the total contribution from B&HCC totalling some £9.49.m have been removed from the Council's Comprehensive Income and Expenditure Statement. The decision was taken in consultation with our auditors. The comparative figures for 2010/11 have been restated by £11.66m accordingly.

- The Council act as the administrator and coordinator of the concessionary fare scheme on behalf of West Sussex. The relevant transactions between these two authorities have been accounted for in compliance with the features of an 'Agent' and 'Principal' as contained within the CIPFA Code.

- As at 31 March 2012 the Council's account with RBS Money Market Fund was the only one held for cash flow requirement reasons whereas at 31 March 2011 the Council's NatWest Call account was held for that purpose. The accounts held for cash flow purposes will continue to change dependent on the relevant movement in money market conditions and the Council's Treasury Management Strategy, i.e., relative yield, security and liquidity or changes in any relevant statutory guidance or code of practice.

- As at 31 March 2012 the Council's account with RBS Money Market Fund was the only one held for cash flow requirement reasons whereas at 31 March 2011 the Council's NatWest Call account was held for that purpose. The accounts held for cash flow purposes will continue to change dependent on the relevant movement in money market conditions and the Council's Treasury Management Strategy, i.e., relative yield, security and liquidity or changes in any relevant statutory guidance or code of practice.

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

The financial statements contains 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 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property Plant and Equipment	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 annually 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.	Depreciation charged in 2011/12 is £38.5m and the net book value of property, plant and equipment at 31 March 2012 is £925.358m. If the useful life of assets reduces, cumulative depreciation increases and the carrying amount of each asset falls. It is estimated that the annual depreciation charge for non-current assets would increase by £40.02m for every 1 year that useful lives had to be reduced. This amount is considered to be material in relation to the recorded expenses and non-current assets totals in the Statement of Accounts.
	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.	The Council carries out an annual impairment review of its asset base, which takes in to account such factors as the current economic climate. The level of impairment charged in 2011/12 to the Deficit on Provision of Services is £14.5m and £1.6m to the Revaluation Reserve.
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.	An estimate of the likely uncollectability of outstanding debtors is made each year and a charge made to the Comprehensive Income and Expenditure Statement. Debtors are then carried on the Balance Sheet net of this provision. The increase in bad debt provision set aside in 2011/12 is £167,608.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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.	The value of the Pensions Liability is calculated by a qualified Actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund. During 2011/12, the Council's actuaries advised that the net pension's liability has increased from £227.9m at the start of the year to £300.2m at 31 March 2012. Note 45 to the Accounting Statements provides detailed information.
Provisions and Reserves.	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 made, a provision is recognised. The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability. Insurance Provision - This estimate of the potential liability is provided by a qualified professional actuary (JLT Public Sector Risks) 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.	In calculating the level of provisions the Council also exercises judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the Council's provisions is set out in note 24.
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.	Details of the Council's contingent liabilities are set out in note 46.
Economic factors	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. Future Levels of Government Funding and Levels of Reserves – The future levels of funding for local authorities has a high degree of uncertainty.	The Council has set aside amounts in provisions, working balances and reserves which it believes are appropriate based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, etc.

7. Material items of income and expenses

In line with the accounting standard IAS19 and in common with the vast majority of other employers the Council suffered a significant shortfall in returns on its pension fund assets compared to expectations. The Council expected to achieve a return of £52.9m (6.9%) whereas the actual return on assets was £24.7m (3.2%), a shortfall of £28.2m. This shortfall is also reflected in the actuarial loss recognised in the MiRS.

Concessionary Travel Scheme - The Concessionary Travel Scheme is now the responsibility of the Council and the Council also acts as the administrator and coordinator of the scheme on behalf of West Sussex. The cost of running this service in 2011/12 is £7.5m, which is included in gross expenditure on Highways and Transport. 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. The total grant for the Concessionary Travel Scheme previously paid to the District & Borough Councils in East Sussex, totalled some £6.72m per annum and formed the basis of the grant transferred to the County Council from 1 April 2011. As set out in the Reconciling Policy & Resources (RPR) reports, the County Council's total formula grant was cut by 12.66% which, once applied to the former specific grant gives a sum available of £5.88m per annum to support this service.

8. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Interim Director of Corporate Resources on 11 September 2012. Events taking place after this date are not reflected in the Accounting Statements. Where events taking place before this date provide information about conditions existing at 31 March 2012, the figures in the financial statements will be adjusted in all material respects to reflect the impact of this information.

The financial statements have not been adjusted for the following event that took place after 31 March 2012 as they provide information that is relevant to an understanding of the Council's financial position, but do not relate to existing conditions at that date.

- Academy Schools – The following schools will be gaining an academy status in 2012/13 – Heron Park, King Offa, Oakwood, Sidley, Bexhill High, The Cavendish, Hailsham, Ratton, Rye College, Seaford Head, Glyne Gap and Beacon. Under current accounting conventions, the value of their buildings will be written out of the Council's Balance Sheet at the date that they become academy schools.

9. Adjustments between accounting basis and funding basis under regulations

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

2011/12	**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	52,989	-	-	-	-	(52,989)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the CIES	(1,936)	-	-	-	-	1,936
Movements in the market value of Investment Properties	127					(127)
Amortisation of intangible assets	1,513	-	-	-	-	(1,513)
Capital grants and contributions applied	(24,691)	-	-	-	-	24,691
Revenue expenditure funded from capital under statute	14,228	-	-	-	-	(14,228)

2011/12	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**
Amounts of non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	87,761	-	-	-	-	(87,761)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(45,915)	-	-	-	-	45,915
Capital expenditure charged against the General Fund	(32,992)	-	-	-	-	32,992
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(53,916)	-	-	-	53,913	-
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	(2,553)	-	2,553	-	-	-
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	(1,453)	-	-	-	-	1,453
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 45)	30,145	-	-	-	-	(30,145)
Employer's pensions contributions and direct payments to pensioners payable in the year	(31,714)	-	-	-	-	31,714
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	(596)	-	-	-	-	596
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	(1,437)	-	-	-	-	1,437
Total Adjustments	**(10,440)**	**-**	**1,553**	**-**	**53,916**	**(45,029)**

2010/11	County Fund Balance	Schools Balance	Capital Receipts Reserve	Earmarked Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	Usable 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	(50,307)	-	-	-	-	50,307
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 loss on disposal to the Comprehensive Income and Expenditure Statement	31,543	-	-	-	-	(31,543)
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 Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the 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 45)	(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	(1,743)	-	-	-	-	1,743

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
council tax income calculated for the year in accordance with statutory requirements						
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)**	**-**	**2,154**	**-**	**-**	**80,156**

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 2011/12.

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Balances held by the Council:							
ACRES Reserve	**375**	-	-	**375**	-	116	**491**
ASC Business Transformation Risk	**617**	-	-	**617**	-	-	**617**
ASC ICT Refresh	**-**	-	42	**42**	-	150	**192**
Capital Programme	**41,034**	-	1,366	**42,400**	(28,885)	15,605	**29,120**
CBOSS Development	**655**	-	251	**906**	-	1,183	**2,089**
Claverham Ad Ed	**-**	-	-	**-**	-	20	**20**
Climate Change	**150**	-	-	**150**	-	-	**150**
Community Partnership	**1**	-	-	**1**	(1)	-	**-**
Corporate Waste	**66,693**	(10,634)	13,705	**69,764**	(8,361)	8,701	**70,104**
CSD ICT Refresh	**148**	(133)	130	**145**	-	477	**622**
CSD Redundancy Reserve	**-**	-	1,232	**1,232**	(1,232)	175	**175**
CSD Strategy Reserve	**-**	-	391	**391**	-	1,540	**1,931**
Deferred Payments	**90**	-	-	**90**	-	-	**90**
Departmental Budgets	**5,162**	(5,162)	9,034	**9,034**	(9,034)	12,676	**12,676**
Departmental Budgets – one off	**2,408**	(2,408)	5,307	**5,307**	(4,970)	124	**461**
Developer Contribution Smoothing	**-**	-	175	**175**	(175)	-	**-**
Extended Schools (Community Facilities)	**227**	-	180	**407**	-	80	**487**

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Balances held by the Council:							
e-Government	**1,808**	(459)	1,065	**2,414**	(540)	176	**2,050**
Revenue Grants and Contributions	**-**	-	5,605	**5,605**	(5,605)	7,772	**7,772**
High Weald	**65**	-	19	**84**	-	3	**87**
Insurance (from 1/4/97)	**8,306**	(1,031)	550	**7,825**	(4,091)	1,907	**5,641**
Insurance (to 31/3/97)	**994**	(35)	28	**987**	(9)	-	**978**
Invest To Save	**1,432**	(1,078)	-	**354**	(352)	-	**2**
Leisure Centres	**329**	(20)	-	**309**	(7)	22	**324**
Management Capacity	**129**	-	-	**129**	(56)	-	**73**
Map Digitisation	**12**	(3)	-	**9**	(4)	-	**5**
On-street car parking	**458**	(5)	460	**913**	(191)	91	**813**
Ouse Valley Commuted Maintenance	**17**	-	-	**17**	-	-	**17**
Interest Rate Equalisation Reserve	**1**	-	-	**1**	(1)	-	**-**
PFI Assets	**221**	(221)	-	**-**	-	-	**-**
Recession Fund Reserve	**894**	(894)	-	**-**	-	-	**-**
Redundancies	**1,448**	(3,641)	3,837	**1,644**	(1,824)	7,324	**7,144**
Redundancies: ASC-DPS	**387**	-	-	**387**	-	-	**387**
Roundabout Reserve	**114**	(26)	32	**120**	(18)	-	**102**
Schools Intervention Support	**-**	-	-	**-**	-	900	**900**
Schools Redundancy Reserve	**-**	-	107	**107**	-	-	**107**
Skills Centre (Wd)	**-**	-	492	**492**	(123)	-	**369**
Strategic Economic Development	**-**	-	825	**825**	-	400	**1,225**
Transport & Environment ICT Refresh	**58**	-	-	**58**	-	-	**58**
Teachers Unfunded Pension	**-**	-	-	**-**	-	200	**200**
Travellers' Sites	**151**	(35)	35	**151**	(35)	-	**116**
Virtual College	**232**	(81)	-	**151**	(51)	65	**165**
Winter Maintenance	**500**	-	-	**500**	-	-	**500**
Total (excl. Waste PFI)	**135,116**	**(25,866)**	**44,868**	**154,118**	**(65,565)**	**59,707**	**148,260**
Waste PFI Prepayment (as modelled)	**28,014**	(2,704)	5,647	**30,957**	(30,649)	53	**361**
Total (with Waste PFI)	**163,130**	**(28,570)**	**50,515**	**185,075**	**(96,214)**	**59,760**	**148,621**

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.
Claverham Ad Ed	The Claverham Adult Education team and the Council's Economy, Transport and Environment dept, 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.
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 2012/13. It covers those services where the consultation process has started but will be completed in 2012/13.
CSD Strategy Reserve	To smooth the impact and support the implementation of service restructures over 2012/13 and 2013/14.
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	These represent available one off resources to meet future 2012/13 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.
Revenue Grants and Contributions	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 31/3/97)	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 Intervention Support	To support schools to achieve higher key stage results in 2012/13.
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 2012 although details of individual cases had not been finalised. Therefore, a reserve was created in 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 three 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.
Teachers Unfunded Pension	To support the budget when the unfunded revenue teacher's pension budget is permanently reduced to support the teachers' pension fund. This is necessary e.g. when a teacher's pension is rebased once they reached state pension age.
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, which is now operational in 2011/12. The current reserve balance of £361,000 will be transferred to the Capital Adjustment Account to establish the relevant MRP as the asset (i.e. Pebsham HWRS) comes into use and the liability is finally established.

Balances held by Schools under a scheme of delegation

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
Balances held by Schools	**11,753**	**(2,673)**	**4,438**	**13,518**	**(2,783)**	**6,021**	**16,756**

11. Other Operating Expenditure

	2010/11	2011/12
	£000	£000
Ashdown Forest Conservators	80	72
Sussex Sea Fisheries	243	300
Environment Agency (flood defence)	130	131
Losses on the disposal of non-current assets	28,262	85,208
Total	**28,715**	**85,711**

Note - The 2011/12 Losses on the disposal of non-current assets figure of £85.208m (£28.262m 2010/11) includes the removal of six schools from the Balance Sheet (three that have attained Academy status and three that have attained Foundation status).

12. Financing and Investment Income and Expenditure

	2010/11	2011/12
	£000	£000
Interest payable and similar charges	16,282	19,940
Pensions interest cost and expected return on pensions assets	12,205	1,707
Interest receivable and similar income	(2,691)	(2,709)
Reduction in Fair Value of Investment Properties	-	127
Surplus on Trading Undertakings	(167)	(167)
Total	**25,629**	**18,898**

13. Taxation and Non Specific Grant Income

	2010/11	2011/12
	£000	£000
Council tax income	238,833	240,900
Non domestic rates	87,424	89,997
Revenue Support Grant - RSG	12,695	27,818
New Home Bonus	-	375
Council Tax Freeze Grant	-	5,981
Local Support Services Grant	-	1,586
Area Based Grant – ABG	33,747	-
Capital grants and contributions	50,307	78,607
Total	**423,006**	**445,264**

14. Property, Plant and Equipment

Comparative Movements in 2011/12:	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*
		Restated					Restated	
	£000	£000	£000	£000	£000	£000		£000
Cost or Valuation								
At 1 April 2011	661,650	86,669	247,128	1,691	8,970	17,939	1,024,047	47,661
Additions	17,261	1,131	16,729	69	9	8,163	43,362	368
Additions – Newhaven ERF-PFI	96,965	-	-	-	-	-	96,965	96,965
Revaluation increases recognised in the Revaluation Reserve	13,300	5,055	-	-	527	-	18,882	489
Revaluation decreases recognised in the Revaluation Reserve	(1,255)	(361)	-	-	(3)	-	(1,619)	-
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	1,979	-	-	-	75	-	2,054	-
Revaluation decreases recognised in the deficit on the Provision of Services	(14,510)	(2,065)	-	-	(165)	-	(16,740)	-
Derecognition – disposals	(464)	-	-	-	(1,200)	-	(1,664)	-
Derecognition – academy & trust	(78,627)	(13,311)	-	-	-	-	(91,938)	-
Assets reclassified within PPE	(28,173)	25,323	-	-	2,850	-	-	-
Assets reclassified to Held for Sale	(1,010)	-	-	-	(1,251)	-	(2,261)	-
Other movements in cost or valuation – assets under construction	4,618	-	-	-	-	(4,618)	-	-

Comparative Movements in 2011/12:	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*
		Restated					Restated	
	£000	£000	£000	£000	£000	£000		£000
At 31 March 2012	**671,734**	**102,441**	**263,857**	**1,760**	**9,812**	**21,484**	**1,071,088**	**145,483**
Accumulated Depreciation and Impairment								
at 1 April 2011	(19,755)	(17,215)	(83,715)	-	(461)	-	(121,146)	(2,585)
Depreciation charge	(20,212)	(7,460)	(10,626)	-	(177)	-	(38,475)	(1,290)
Depreciation written out to the Revaluation Reserve	3,341	2,067	-	-	45	-	5,453	-
Revaluation losses recognised in the Surplus/Deficit on the Provision of Services	1,710	562	-	-	-	-	2,272	-
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	(116)	-	-	-	(2)	-	(118)	-
Assets reclassified within PPE	1,350	(1,305)	-	-	(45)	-	-	-
Assets reclassified to Held for Sale	51	-	-	-	31	-	82	-
Derecognition – disposals	9	-	-	-	19	-	28	-
Derecognition - Academy & Trust Schools	4,327	1,847	-	-	-	-	6,174	-
At 31 March 2012	**(29,295)**	**(21,504)**	**(94,341)**	**-**	**(590)**	**-**	**(145,730)**	**(3,875)**
Net Book Value								
at 31 March 2012	**642,439**	**80,937**	**169,516**	**1,760**	**9,222**	**21,484**	**925,358**	**141,608**
at 31 March 2011	**641,895**	**69,454**	**163,413**	**1,691**	**8,509**	**17,939**	**902,901**	**45,076**

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*
		Restated					Restated	
	£000	£000	£000	£000	£000	£000		£000
Cost or Valuation								
At 1 April 2010	593,822	71,855	230,444	1,625	10,315	40,557	948,618	47,549
Additions	38,994	3,582	16,684	70	-	7,919	67,249	112
Transfer of properties from PCT	7,156	-	-	-	-	-	7,156	-
Revaluation increases recognised in the Revaluation Reserve	49,303	13,199	-	-	(44)	-	62,908	-

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*
		Restated					Restated	
	£000	£000	£000	£000	£000	£000		£000
Revaluation increases (reversal of previous losses) recognised in the surplus on the Provision of Services	4,189	-	-	-	-	-	4,189	-
Revaluation (decreases) recognised in the Surplus 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 Held for Sale	(1,274)	-	-	-	(588)	-	(1,862)	-
Assets reclassified to Investment Properties	(447)	-	-	-	-	-	(447)	-
Other movements in cost or valuation – assets under construction	30,510	27	-	-	-	(30,537)	-	-
At 31 March 2011	**661,650**	**86,669**	**247,128**	**1,691**	**8,970**	**17,939**	**1,024,047**	**47,661**
Accumulated Depreciation and Impairment								
At 1 April 2010	(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	13,589	4,125	-	-	98	-	17,812	-
Revaluation losses recognised in the Surplus/Deficit on the Provision of Services	1,764	152	-	-	126	-	2,042	-
Revaluation loss reversals recognised in the Surplus/Deficit on the Provision of Services	(2,166)	-	-	-	-	-	(2,166)	-
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)**

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*
		Restated					Restated	
	£000	£000	£000	£000	£000	£000		£000
Net Book Value								
at 31 March 2011	**641,895**	**69,454**	**163,413**	**1,691**	**8,509**	**17,939**	**902,901**	**45,076**
at 31 March 2010	**577,078**	**57,954**	**156,521**	**1,625**	**9,796**	**40,557**	**843,531**	**46,323**

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.

The useful lives used in the calculation of depreciation are set out in the accounting policies - Note 2.

Capital Commitments

Over the four year period, 2012/13 to 2015/16, the Council is planning to spend a gross capital expenditure of £426m. A large part of this, some £180m 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 2012/13 the Council plans to spend £168m, of which £84m is supported by scheme specific resources. Having adjusted for the actual outturn in 2011/12, slippage on projects and for provisions where there is no on-going commitment, the profiles for schemes in progress at 31 March 2012 are shown below:

2012/13	2013/14	2014/15	Total
£79.3m	£18.9m	£0.1m	£98.3m

Examples of the Council on-going commitments and larger projects already underway at 31 March 2012 include:

Department/Scheme	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Adult Social Care				
Warwick House	4.9	0.7		5.6
Governance and Community Services				
New Archive & Records Office	10.6			10.6
Children's Services				
Academies	27.9	10.7		38.6

There is a political commitment to the Broadband, at a net cost of £14.9m to the Council, and the Bexhill and Hastings Link Road, at a net cost of £22.5m. However, as at 31st March 2012 there was no major 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 new Energy Recovery Facility (ERF) at North Quay, Newhaven is now fully operational. The facility treats household waste that is not reused, composted or recycled and generates electricity from it. The electricity produced is sold to the National Grid and is enough to supply 25,000 homes. The ERF can process 210,000 tonnes of waste per year, which would otherwise need to be transported long distances, to be put in a landfill site. In compliance with the Code, the Council's valuer (Wilks Head & Eve LLP) was requested to carry out a valuation to assess whether capital expenditure on the new Energy Recovery Facility has materially affected the asset valuations. The outcome of the exercise resulted in a valuation of the facility of £145.44m shared between ESCC and B&H Borough Council. The Council has accounted for £96m within the Balance Sheet representing the Council's share of the asset.

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 - Wilks, 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	-	37,546	-	37,546
Valued at fair value in:				
31 March 2012	195,912	28,640	2,351	226,903
31 March 2011	189,896	36,255	148	226,299
31 March 2010	115,822	-	2,387	118,209
31 March 2009	70,711	-	4,196	74,907
31 March 2008	99,393	-	730	100,123
Total Current Value	**671,734**	**102,441**	**9,812**	**783,987**

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 Comprehensive Income and Expenditure Statement:

	2010/11 £000	2011/12 £000
Rental income from investment property	203	238
Total	**203**	**238**

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:

	2010/11	2011/12
	£000	£000
Balance at start of the year	936	1,508
Net gains from fair value adjustments	125	-
Net losses from fair value adjustments	-	(127)
Transfers from Property, Plant and Equipment	447	-
Balance at end of the year	**1,508**	**1,381**

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.

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 material intangible asset trademarks, artistic originals, or patents.

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 carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £1.513m charged to revenue in 2011/12 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:

	2010/11	2011/12
	£000	£000
Balance at start of year:		
Gross carrying amounts	8,974	9,206
Accumulated amortisation	(4,548)	(5,865)
Net carrying amount at start of year	**4,426**	**3,341**
Additions:		
Purchases	232	397
Amortisation for the period	(1,317)	(1,513)
Net carrying amount at end of year	**3,341**	**2,225**
Comprising:		
Gross carrying amounts	9,206	9,603
Accumulated amortisation	(5,865)	(7,378)
	3,341	**2,225**

There are four items of capitalised software in the financial statements:

	Carrying Amount		Remaining Amortisation Period
	31 March 2011	31 March 2012	
Description	**£000**	**£000**	
Microsoft Enterprise Agreement Software	643	-	-
New Microsoft Enterprise Agreement	-	126	5
SAP Software	2,346	1,686	2
ROCS ICT - Software	352	263	3
HRMS Financials	-	150	10

- 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 – 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.

- HRMS Financials - To improve and modernise the Council's service delivery functions.

17. Financial Instruments

Categories of Financial Instruments

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

	Long term		Current	
	31 March 2011	**31 March 2012**	**31 March 2011**	**31 March 2012**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Investments				
Loans and receivables	1	1	179,603	271,132
Cash and Cash Equivalents	-	-	42,695	13,889
Debtors				
Loans and receivables	773	721	17,099	21,199
Total Financial Assets	**774**	**722**	**239,397**	**306,220**
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	(241,262)	(264,261)	(1,304)	(5,643)
Cash and Cash Equivalents	-	-	(11,743)	(16,432)
Other Long Term Liabilities				
PFI and finance lease liabilities at amortised cost	(32,301)	(95,680)	-	-
Financial Guarantees at amortised cost	-	(54)	-	-
Long Term Creditors at amortised cost	-	(1)	-	-
Total Other Long Term Liabilities	(32,301)	(95,735)	-	**-**
Creditors				
Financial liabilities at amortised cost	-	-	(69,124)	(67,707)
Total Financial Liabilities	**(273,563)**	**(359,996)**	**(79,171)**	**(89,782)**

Income, Expense, Gains and Losses

2010/11	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	(16,282)	-	(16,282)
Fee expense	-	-	-
Total expense in Surplus on the Provision of Services	**(16,282)**	-	**(16,282)**
Interest income	-	2,691	2,691
Fee income	-	-	-
Total income in Surplus on the Provision of Services	-	2,691	2,691
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-
Net gain/(loss) for the year	**(16,282)**	**2,691**	**(13,591)**

2011/12	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	(19,940)	-	(19,940)
Total expense in Deficit on the Provision of Services	**(19,940)**	-	**(19,940)**
Interest income	-	2,709	2,709
Total income in Deficit on the Provision of Services	-	**2,709**	**2,709**
Net gain/(loss) for the year	**(19,940)**	**2,709**	**(17,231)**

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 2012 of 3.7% to 8.6% for loans from the PWLB and 3.7% to 4.4% 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.

Financial Liabilities at amortised cost

The fair values calculated are as follows:

	31 March 2011 Carrying amount £000	31 March 2011 Fair value £000	31 March 2012 Carrying amount £000	31 March 2012 Fair value £000
Borrowings	(242,566)	(271,815)	(269,904)	(337,490)
Cash and Cash Equivalents	(11,743)	(11,743)	(16,432)	(16,432)
PFI and Finance Lease Liabilities at amortised cost	(32,301)	(32,301)	(95,680)	(95,680)
Financial Guarantee	-	-	(54)	(54)
Long Term Creditors	-	-	(1)	(1)
Current Creditors	(66,124)	(66,124)	(67,707)	(67,707)
Total	**(352,734)**	**(381,983)**	**(449,778)**	**(517,363)**

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 higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

Current creditors are carried at cost, as this is a fair approximation of their value.

Financial Assets: Loans and Receivables

	31 March 2011 Carrying amount £000	31 March 2011 Fair value £000	31 March 2012 Carrying amount £000	31 March 2012 Fair value £000
Investments	179,604	179,604	271,133	271,133
Cash and Cash Equivalents	42,695	42,695	13,889	13,889
Debtors	17,872	17,872	21,920	21,920
Total	**240,171**	**240,171**	**306,942**	**306,942**

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.

18. Inventories

	Consumable Stores 2010/11 £000	Consumable Stores 2011/12 £000
Balance outstanding at start of year	**72**	**136**
Purchases	579	471
Recognised as an expense in the year	(515)	(481)
Balance outstanding at year-end	**136**	**126**

These comprise:

- 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 of May Gurney.
- Discounted Brighton & Hove Bus tickets.
- Seven Sisters Visitor centre stock for resale.
- ICT - cartridges and paper.

19. Construction Contracts

At 31 March 2012, there are no construction contracts in progress on behalf of third parties.

20. Current and Long Term Debtors

	31 March 2011 (Restated) £000	31 March 2012 £000
Current Debtors		
Central Government Bodies	5,932	5,152
Other Local Authorities	7,186	7,239
NHS Bodies	830	3,634
Other entities and individuals	12,145	14,419
Total	**26,093**	**30,444**

	31 March 2011 £000	31 March 2012 £000
Long Term Debtors		
Waste PFI Prepayment	30,956	361
Other	773	721
Total	**31,729**	**1,082**

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 £167,800 was made in 2011/12, (£281,300 in 2010/11) bringing the total allowance for impairment to £868,400 at 31 March 2012. These amounts are netted off the figures shown for other entities and individuals above. 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.

In addition there are allowances for impairment in respect of Council Tax debtors which are assessed by the District Councils in their role as Council Tax collection authorities. At 31 March 2012 the County Council's share of these allowances amounts to £7.902m (£7.660m at 31 March 2011) out of its share of Council Tax debts totalling £13.680m (£12.849m at 31 March 2011).

The analysis of current debtors at 31 March 2011 has been restated following a review of debtor classifications in the light of further guidance to ensure it more accurately reflects the composition of the overall debtor balance which in total remains unchanged from the 2010/11 Statement of Accounts.

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2011 £000	31 March 2012 £000	Movement £000
Cash in hand	195	173	(22)
Short-term deposits	42,500	13,716	(28,784)
Total Cash and Cash Equivalents	**42,695**	**13,889**	**(28,806)**
Imputed cash adjustment for National Park Authority and Primary Care Trusts	(140)	(700)	(560)
Accrued balance at bank and for third parties	(11,603)	(15,732)	(4,129)
Net cash and cash equivalent balances/(overdrawn)	**(11,743)**	**(16,432)**	**(4,689)**
Total Cash	**30,952**	**(2,543)**	**(33,495)**

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 National Park Authority. 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 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. Until 31 March 2011 the Council also held balances on behalf of the East Sussex Pension Fund but these are now managed separately. 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 2011	31 March 2012
	£000	£000
East Sussex Fire and Rescue Authority	(7,030)	(11,924)
East Sussex Pension Fund	1,041	-
Trust Funds	(195)	(209)
Concessionary Fare	1,315	1,696
Unpresented cheques, BACS payments, etc.	(6,734)	(5,295)
Accrued balance at bank and for third parties	**(11,603)**	**(15,732)**

The pooled bank balances at 31 March 2012 include £21.6m (£20.1m at 31 March 2011) relating to bank accounts operated by schools under local management arrangements.

22. Assets held for Sale

Current Assets Held for Sale	2010/11 Restated	2011/12
	£000	£000
Balance outstanding at start of year	-	1,950
Assets newly classified as held for sale:		
Property, Plant and Equipment	1,811	2,179
Additions	296	696
Revaluation gains recognised in Revaluation Reserve	-	482
Revaluation losses recognised in Provision of Services	(157)	(28)
Assets declassified as held for sale:		
Assets sold	-	(361)
Balance outstanding at year end	**1,950**	**4,918**

23. Creditors

	31 March 2011 (Restated)	31 March 2012
	£000	£000
Central Government Bodies	10,217	8,786
Other Local Authorities	4,485	5,084
NHS Bodies	440	60
Public Corporation and trading funds	4	-
Other creditors and accruals	66,736	67,033
	81,882	**80,963**

The analysis of creditors at 31 March 2011 has been restated following a review of creditor classifications in the light of further guidance to ensure it more accurately reflects the composition of the overall creditor balance which in total remains unchanged from the 2010/11 Statement of Accounts.

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	**1 April 2011**	**Additional provisions**	**Amounts used**	**31 March 2012**
	£000	**£000**	**£000**	**£000**
Adult Social Care legal costs	122	-	(122)	-
Insurance claims	4,679	5	(385)	4,299
Section 117 liabilities	800	-	-	800
Total	**5,601**	**5**	**(507)**	**5,099**

Current Provisions	**1 April 2011**	**Additional provisions**	**Amounts used**	**31 March 2012**
	£000	**£000**	**£000**	**£000**
Adult Social Care legal costs	78	122	(78)	122
Redundancies - ASC	337	324	(151)	510
Schools Restructure	204	-	(204)	-
Governance & Community Services (GCS) Redundancy	34	58	-	92
Carbon Reduction Commitment	-	299	-	299
Total	**653**	**803**	**(433)**	**1,023**
Total Provisions	**6,254**	**808**	**(940)**	**6,122**

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 2012, 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 2012/13.

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 therefore a provision has been set up to allow for the future repayment of all outstanding cases.

GCS Redundancy - A decision has been taken to remove posts from the structure and this provision represents the estimated costs of these redundancies.

Carbon Reduction Commitment (CRC) Allowances - The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, the Council will submit the annual report on its emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. The Council is required to surrender allowances to the scheme by the last working day in July 2012 in proportion to its reported emissions for the preceding scheme year and in accordance with the scheme requirements. Therefore, the obligation is to meet the Council's CRC responsibilities that occurred during the 2011/12 financial year.

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.

County Fund & School Balances - The County Fund and School balances shows the resources available to meet future running costs – see note 10.

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 & Contributions Unapplied Account – see note below. This 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.

	31 March 2011	31 March 2012
	£000	£000
Usable Capital Receipts Reserve	6,372	7,925
Capital Grants & Contributions Unapplied	-	53,916
Earmarked Reserves	179,470	140,849
Earmarked Reserves – Revenue Grant & Contribution	5,605	7,772
County Fund balances	7,540	8,303
School Balances	13,518	16,756
Total Usable Reserves	**212,505**	**235,521**

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.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**4,218**	**6,372**
Amounts receivable during the year	3,154	2,553
Amounts applied to finance new capital investment	(1,000)	(1,000)
Net Transfer to the Capital Receipts Reserve	2,154	1,553
Balance at 31 March	**6,372**	**7,925**

Capital Grants and Contributions Unapplied Account

The capital grants and contributions account holds unconditional grants and contributions available to meet future capital investment. The grants and contributions are held in this reserve until such time they are used to finance capital expenditure.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**-**	**-**
Amounts receivable during the year	-	71,304
Amounts applied to finance new capital investment	-	(17,388)
Net Transfer to the Capital Unapplied Account	-	53,916
Balance at 31 March	**-**	**53,916**

26. Unusable Reserves

	31 March 2011 £000	31 March 2012 £000
Revaluation Reserve	126,278	121,334
Capital Adjustment Account	443,752	421,810
Financial Instruments Adjustment Account	(1,476)	(23)
Collection Fund Adjustment Account	1,404	2,000
Accumulated Absences Account	(8,633)	(7,196)
Pensions Reserve	(227,865)	(300,200)
Total Unusable Reserves	**333,460**	**237,725**

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.

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	2010/11	2011/12	
	£000	£000	£000
Balance at 1 April	55,521		126,278
Upward revaluation of assets	80,719	24,817	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(677)	(1,619)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	80,042		23,198
Difference between fair value depreciation and historical cost depreciation	(1,376)	(5,511)	
Accumulated gains on assets sold or scrapped	(7,909)	(22,631)	
Amount written off to the Capital Adjustment Account	(9,285)		(28,142)
Balance at 31 March	**126,278**		**121,334**

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 Council as finance for the costs of acquisition, construction, and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

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.

	2010/11	2011/12	
	£000	£000	£000
Balance at 1 April	**459,721**		**443,752**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation of non-current assets	(35,348)	(38,475)	
Revaluation losses on non-current assets	(28,107)	(14,514)	
Revaluation loss reversals on non-current assets	2,023	1,936	
Amortisation of intangible assets	(1,317)	(1,513)	
Revenue expenditure funded from capital under statute	(5,243)	(14,228)	
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 loss on disposal to the Comprehensive Income and Expenditure Statement	(31,543)	(87,761)	
	(99,410)	**(154,555)**	
Adjusting amounts written out of the Revaluation Reserve	9,285	28,142	
Net written out amount of the cost of non-current assets consumed in the year	**(90,125)**		**(126,413)**
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	1,000	1,000	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	50,307	24,691	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,980	45,915	
Capital expenditure charged against the General Fund and HRA balances	6,869	32,992	
	74,156		**104,598**
Movements in the market value of Investment Properties debited to the Comprehensive Income and Expenditure Statement	-		(127)
Balance at 31 March	**443,752**		**421,810**

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 2012 will be charged to the General Fund over a specific period.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**(2,926)**	**(1,476)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	1,450	1,453
Balance at 31 March	**(1,476)**	**(23)**

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.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**(515,937)**	**(227,865)**
Actuarial gains or (losses)	185,862	(73,904)
Benefit charged/(credited) to Comprehensive Income and Expenditure Statement	68,352	(30,145)
Employers contribution charged to General Fund	33,858	31,714
Balance at 31 March	**(227,865)**	**(300,200)**

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 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 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.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**(339)**	**1,404**
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	596
Balance at 31 March	**1,404**	**2,000**

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.

	2010/11	2011/12
	£000	£000
Balance at 1 April	**(8,640)**	**(8,633)**
Settlement or cancellation of accrual made at the end of the preceding year	8,640	8,633
Amounts accrued at the end of the current year	(8,633)	(7,196)
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	1,437
Balance at 31 March	**(8,633)**	**(7,196)**

27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2010/11 £000 (Restated)	2011/12 £000
Net (Surplus) or Deficit on the Provision of Services	**(106,020)**	**22,013**
Adjust for non-cash movements		
Depreciation	(35,348)	(38,475)
Impairment and downward revaluations	(28,107)	(14,515)
Reversal of previous years revaluation losses	2,023	1,936
Amortisation	(1,317)	(1,513)
Financial Guarantee Adjustments	-	(54)
Net PFI Debtor Adjustments	5,647	(30,595)
(Increase) in Interest Creditors	(1)	(4,312)
Decrease in Creditors	3,360	6,945
Increase in Interest and Dividend Debtors	2	79
Increase / (Decrease) in Debtors	(2,372)	2,470
Increase / (Decrease) in Inventories	64	(10)
Movement in Pension Liability	102,210	1,569
Contributions (to) / from Provisions	(532)	132
Carrying amount of non-current assets sold or derecognised	(31,544)	(87,761)
Gain on Property transferred from Investment Properties to PPE	125	-
Downward revaluation in Investment Property Values	-	(127)
Adjust for items that are investing or financing activities		
Capital grants and contributions credited to provision of services	50,307	78,607
Proceeds from the sale of PPE, Investment Properties and Intangibles	3,154	2,553
Net Cash outflow from Operating Activities	**(38,349)**	**(61,058)**

Operating activities within the Cash Flow Statement include the following cash flows relating to interest

	2010/11 £000	2011/12 £000
Interest receivable	(2,691)	(2,709)
Opening debtor	(51)	(53)
Closing debtor	53	133
Cash flow interest received	**(2,689)**	**(2,629)**

	2010/11 £000	2011/12 £000
Interest payable	16,282	19,940
Opening creditor	1,152	1,153
Closing creditor	(1,153)	(5,465)
Cash flow interest paid	**16,281**	**15,628**

28. Cash Flow Statement – Investing Activities

	2010/11	2011/12
	£000	£000
	(Restated)	
Purchase of Property, Plant & Equipment	74,405	43,362
Purchase of Investment Property, Intangible Assets & Held for Sale	528	1,093
PFI Assets (non cash flow item)	-	30,649
Opening Capital Creditors	2,237	3,373
Closing Capital Creditors	(3,374)	(2,225)
Purchase of short-term investments	11,550	91,449
Long term loans granted	120	-
Proceeds from the sale of PPE, Investment Property and Intangible Assets	(3,154)	(2,329)
Other capital cash receipts	-	(276)
Capital Grants Received	(46,949)	(51,048)
Net cash outflow from investing activities	**35,363**	**114,048**

29. Cash Flow Statement – Financing Activities

	2010/11	2011/12
	£000	£000
	(Restated)	
Cash receipts of short and long-term borrowing	-	(23,000)
Appropriation to Collection Fund Adjustment Account	1,743	596
Repayments of short- and long-term borrowing	45	(27)
Payments for the reduction of finance lease liabilities	239	246
Payments for the reduction of long term PFI Liabilities	2,489	2,690
Net cash outflow/(inflow) from financing activities	**4,516**	**(19,495)**

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 Cabinet is responsible for most day-to-day Council decisions, while the full Council 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 is 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 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. 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.

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting *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:

- charges in relation to capital expenditure (depreciation, revaluation and impairment losses) are based on estimates whereas actual charges to services are included 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:

2011/12 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	(55,108)	(12,149)	(83,258)	(29,972)	(70,934)	**(251,421)**
Government grants	(17,593)	(254)	(348,604)	-	(7,489)	**(373,940)**
Total Income	**(72,701)**	**(12,403)**	**(431,862)**	**(29,972)**	**(78,423)**	**(625,361)**
Employee expenses	51,208	14,617	292,546	11,076	15,636	**385,083**
Other service expenses	179,440	7,649	187,650	25,071	130,999	**530,809**
Support service recharges	6,074	3,834	44,666	6,022	6,642	**67,238**
Total Expenditure	**236,722**	**26,100**	**524,862**	**42,169**	**153,277**	**983,130**
Net Expenditure	**164,021**	**13,697**	**93,000**	**12,197**	**74,854**	**357,769**

2010/11 Department Income and Expenditure (Restated)	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)	(48,983)	(301,441)
Government grants	(5,619)	(2,925)	(356,313)	(1)	(6,584)	(371,442)
Total Income	**(62,173)**	**(17,081)**	**(509,275)**	**(28,787)**	**(55,567)**	**(672,883)**
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	97,938	497,554
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**	**120,437**	**1,027,139**
Net Expenditure	**171,416**	**17,357**	**89,693**	**10,920**	**64,870**	**354,256**

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.

	2010/11	2011/12
	£000	£000
Net expenditure in the Department Analysis	**354,256**	**357,769**
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	(34,238)	21,629
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(57,376)	(16,730)
Cost of Services in Comprehensive Income and Expenditure Statement	**262,642**	**362,668**

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.

2011/12	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	(251,421)	(4)	50,730	93,493	**(107,202)**		**(107,202)**
Net surplus on trading undertakings	-	-	-	-	**-**	(167)	**(167)**
Interest and investment income-	-	-	-	-	**-**	(2,709)	**(2,709)**
Income from council tax	-	-	-	-	**-**	(240,900)	**(240,900)**
Revenue Support Grant and other Grants	-	-	-	-	**-**	(35,760)	**(35,760)**
Non-Domestic Rates	-	-	-	-	**-**	(89,997)	**(89,997)**
Government grants and contributions	(373,940)	-	-	-	**(373,940)**	(78,607)	**(452,547)**
Total Income	**(625,361)**	**(4)**	**50,730**	**93,493**	**(481,142)**	**(448,140)**	**(929,282)**
Employee expenses	385,083	738	-		**385,821**	-	**385,821**
Other service expenses	485,938	405	(67,460)	(26,265)	**392,628**	-	**392,628**
Support Service recharges	67,238	-	-	(67,238)	**-**	-	**-**
Depreciation, amortisation and impairment	44,871	20,490	-	-	**65,361**	127	**65,488**
Pensions interest cost and net return on assets	-	-	-	-	**-**	1,707	**1,707**
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	**-**	6,889	**6,889**
Interest Payments	-	-	-	-	**-**	13,051	**13,051**
Precepts & Levies	-	-	-	-	**-**	504	**504**
Gain or Loss on Disposal of Property, Plant and Equipment	-	-	-	-	**-**	85,207	**85,207**
Total expenditure	**983,130**	**21,633**	**(67,460)**	**(93,493)**	**843,810**	**107,485**	**951,295**
(Surplus) or deficit on the provision of services	**357,769**	**21,629**	**(16,730)**	**-**	**362,668**	**(340,655)**	**22,013**

2010/11 (Restated)	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	(301,441)	-	-	51,862	(249,579)	-	(249,579)
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 and other grants	-	-	-	-	-	(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)**	**-**	**-**	**51,862**	**(621,021)**	**(425,864)**	**(1,046,885)**
Employee expenses	402,805	-	-	-	402,805	-	402,805
Other service expenses	467,860	(67,295)	(57,376)	74,918	418,107	-	418,107
Support Service recharges	126,780	-	-	(126,780)	-	-	-
Depreciation, amortisation and impairment	29,694	33,057	-	-	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
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	28,262	28,262
Total expenditure	**1,027,139**	**(34,238)**	**(57,376)**	**(51,862)**	**883,663**	**57,202**	**940,865**
(Surplus) or deficit on the provision of services	**354,256**	**(34,238)**	**(57,376)**	**-**	**262,642**	**(368,662)**	**(106,020)**

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, 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.

- Economy, Transport and Environment – responsible for maintaining roads, providing public transport, supporting economic regeneration, and managing the local environment. The department covers improvement to road safety, travel choices and reducing 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, in partnership, make the best use of resources to:

- help make East Sussex prosperous and safe
- support the most vulnerable people
- improve and develop roads and infrastructure
- encourage personal and community responsibility
- deliver the lowest possible council tax
- be a voice for East Sussex, listening and answering to local people.

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 Performance 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:

	2010/11			2011/12		
	Expenditure £000	**Income £000**	**Net £000**	**Expenditure £000**	**Income £000**	**Net £000**
County Catering Service	344	(330)	14	320	(323)	(3)
County Transport Group	545	(757)	(212)	99	(333)	(234)
Chiltern	25	(10)	15	25	(9)	16
Hospitality Hub	23	(1)	22	27	(5)	22
Sidley Café	26	(6)	20	13	(6)	7
Fleet Management	3	(3)	-	-	-	-
ICT	6	(4)	2	-	-	-
Other services	-	(59)	(59)	-	-	-
1970 Act (see below)	2,651	(2,620)	31	2,039	(2,014)	25
Total	**3,623**	**(3,790)**	**(167)**	**2,523**	**(2,690)**	**(167)**

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:

	2010/11			2011/12		
	Expenditure	**Income**	**Net**	**Expenditure**	**Income**	**Net**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Legal Services	319	(319)	-	247	(247)	-
County Records	395	(395)	-	236	(236)	-

	2010/11			2011/12		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
School Library Service	114	(114)	-	108	(108)	-
Music Tuition	192	(161)	31	185	(160)	25
Street Lighting	207	(207)	-	114	(114)	-
Lewes Car Parking scheme	381	(381)	-	340	(340)	-
Occupational Health	160	(160)	-	169	(169)	-
Financial Services	292	(292)	-	349	(349)	-
Property Services	119	(119)	-	107	(107)	-
Other	472	(472)	-	184	(184)	-
Total	**2,651**	**(2,620)**	**31**	**2,039**	**(2,014)**	**25**

32. *Pooled Budgets - Partnership Schemes under* Section 75 of the National Health Services Act 2006

In 2011/12 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 Foundation Trust and three with East Sussex Downs and Weald PCT and Hastings and Rother PCT.

- The **Mental Health Crisis Response & Home Treatment and Community Forensic** scheme, 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 **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 **Children's Community Services** scheme which started in April 2011 and comprises the Council as host agency and the East Sussex Downs and Weald PCT. As a transitional measure in 2011/12 the PCT acted as agent for the partnership, taking responsibility for expending its contribution to the pooled budget which was fully spent. The County Council therefore is entitled to all the surplus of £231,000 generated in the year.

A fifth scheme, the **Community Collaborative Rehabilitation Team** scheme, which started in October 2001, comprising the Council together with Hastings and Rother PCT as host agency, ceased at 31st March 2011.
The financial transactions of these schemes can be summarised as follows:

	2010/11			2011/12		
	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)	2,530	(2,530)	(122)
Mental Health – Community Forensic	477	(477)	(132)	479	(479)	(149)
Integrated Community Equipment	3,329	(3,386)	(1,693)	4,056	(4,056)	(2,028)
Carers Services	595	(595)	(326)	298	(298)	(175)
Children's Community Services	-	-	-	26,868	(27,099)	(11,516)
Community Collaborative Rehabilitation	480	(532)	(149)	-	-	-
Total	**7,344**	**(7,453)**	**(2,392)**	**34,231**	**(34,462)**	**(13,990)**

33. Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2010/11	2011/12
	£000	£000
Salaries (Basic allowances)	531	531
Members - NI & Pension	117	117
Special responsibility allowances	222	204
Expenses	40	36
Total	**910**	**888**

The table below shows the actual amounts paid to individual members in the 2011/12 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 2011/12

Name	Basic Allowance	Special Responsibility Allowance	Travel by car	Fare and Subsistence
	£	£	£	£
Barnes	10,842	-	-	-
Belsey	10,842	12,626	1,948	5
Bennett	10,842	12,626	2,627	148
Bentley	10,842	14,452	2,021	60
Birch	10,842	-	24	-
Daniel	10,842	6,021	1,446	4
Dowling	10,842	11,130	478	36
Elkin	10,842	15,502	2,785	368
Ensor	10,842	6,021	-	-
Fawthrop	10,842	-	615	-
Field	10,842	3,129	1,247	-
Freebody	10,842	12,626	615	-
Freeman	10,842	-	480	-
Gadd	10,842	-	28	10
Glazier	10,842	16,708	4,074	430
Harris	10,842	-	-	-
Healy	10,842	-	799	11
Heaps	10,842	-	--	-
Howson	10,842	-	236	-
Hughes	10,842	-	-	-
Jones	10,842	24,087	1,309	-
Kenward	10,842	-	626	-
Lambert	10,842	-	-	-
Livings	10,842	-	506	6
Lock	10,842	6,038	1,726	226
Maynard	10,842	14,452	-	-
O'Keefe	10,842	-	-	-
Ost	10,842	-	253	15
Pragnell	10,842	5,260	-	-
Reid	10,842	2,130	-	-
Rodohan	10,842	-	149	-
Rogers	10,842	-	671	44
Scott	10,842	-	1,146	-
Shing, DS	10,842	-	-	-
Shing, S	10,842	-	311	-
Simmons	10,842	6,782	124	81
Sparks	10,842	6,021	151	-
St Pierre	10,842	-	-	-
Stogdon	10,842	6,021	1,543	155
Stroude	10,842	1,826	476	6
Taylor	10,842	761	-	-

Name	Basic Allowance	Special Responsibility Allowance	Travel by car	Fare and Subsistence
	£	£	£	£
Thomas	10,842	-	2,352	779
Thompson	10,842	-	-	-
Tidy, B	10,842	761	898	96
Tidy, S	10,842	1,826	1,283	101
Tutt	10,842	12,042	315	103
Waite	10,842	761	909	-
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. 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 2011/12

	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		175,397	-	-	-	34,027	209,424
Assistant Chief Executive	1	73,870	-	-	-	14,331	88,201
Director of Corporate Resources - Sean Nolan	2	153,933	-	84	128,191	107,672	389,880
Director of Children's Services		135,060	-	283	-	26,202	161,545
Director of Adult Social Care		128,193	-	866	-	24,869	153,928
Director of Transport Environment & Economy		121,842	-	1,003	-	24,203	147,048
Interim Director of Governance and Community Services	3	18,095	-	-	-	-	18,095
Interim Director of Corporate Resources	4	3,249	-	-	-	-	3,249
Director of Public Health and Medical Director	5	-	-	-	-	-	-

Notes:
1. Commenced employment 27 June 2011.
2. Ceased employment 31 March 2012. Pension contributions include augmentation costs of £77,809.
3. Not an employee of the Council - engagement via agency ceased after June 2011 (see note 1 above). Value stated is amount paid to the agency for services in the financial year.
4. Not an employee of the Council - engagement via agency commenced March 2012. Value stated is amount due to the agency for services in the financial year.
5. In May 2011 the Council appointed a Director of Public Health as part of the implementation of the Government's NHS reforms. The post holder reports to the Chief Executive however she remains an employee of the NHS which continues to pay all salary and allowances.

Senior Employees Remuneration 2010/11

	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 Environment & Economy		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.
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.

*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.

The Council's employees receiving more than £50,000 remuneration for the year in bands of £5,000, excluding employer's pension contributions were:

Remuneration band	2010/11 Number of employees	2011/12 Number of employees
£50,000 to £54,999	163	150
£55,000 to £59,999	95	91
£60,000 to £64,999	64	57
£65,000 to £69,999	36	33
£70,000 to £74,999	6	16
£75,000 to £79,999	17	16
£80,000 to £84,999	10	11
£85,000 to £89,999	7	9
£90,000 to £94,999	6	2
£95,000 to £99,999	2	6
£100,000 to £104,999	1	-
£105,000 to £109,999	1	4
£110,000 to £114,999	1	1
£115,000 to £119,999	1	3
£120,000 to £124,999	2	3
£125,000 to £129,999	2	3
£130,000 to £134,999	-	-
£135,000 to £139,999	1	1
£140,000 to £144,999	-	-
£145,000 to £149,999	-	-
£150,000 to £154,999	1	-

Remuneration band	2010/11 Number of employees	2011/12 Number of employees
£155,000 to £159,999	-	-
£160,000 to £164,999	-	1
£165,000 to £169,999	1	-
£170,000 to £174,999	-	-
£175,000 to £179,999	-	1
£180,000 to £184,999	-	-
£185,000 to £279,999	-	-
£280,000 to £284,999	-	1

35. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Accounting Statements, 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.

	2010/11 (Restated)	2011/12		
	£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	231	190	2	189
Fees payable for the certification of grant claims and returns for the year	17	18	-	17
Total	**248**	**208**	**2**	**210**

The audit fees for 2010/11 have been restated to take account of amounts totalling £23,000 billed to the Council after 31 March 2011, that were not part of the Audit Plan for the year. The fees of £2,000 paid to the Audit Commission in 2011/12 (£2,000 in 2010/11) is in respect of work undertaken as part of the National Fraud Initiative.

In 2011/12 the Council received a rebate of £14,000 from the Audit Commission to offset the additional audit fees incurred in 2010/11 due to the work arising from the implementation of IFRS.

36. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, 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 2011/12 are as follows:

	2010/11	2011/12		
	Total £000	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for the year	275,978			307,452
Brought Forward from 2010/11	1,359			3,709
Carry forward to 2012/13 agreed in advance	-			-
Agreed budgeted distribution	277,337	52,456	258,705	311,161
Actual central expenditure	(41,395)	(48,403)	-	(48,403)
Actual Dedicated School Grant (DSG) deployed in schools and early years.	(235,156)	-	(258,705)	(258,705)
Local authority contribution	2,923	416	-	416
Carry forward	**3,709**	**4,469**	**-**	**4,469**

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2011/12 was £256.2m. Schools carried forward (reserve) a net total of £16.8m (6.5%) at the end of the financial year at 31 March 2012, which was a increase of £3.2m compared to 31 March 2011. 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.**	**151**	**21**	**10**	**182**
Total surplus	£000	9,309	6,699	1,170	17,178
All schools with deficits					
Number of schools	**No.**	**3**	**1**	**-**	**4**
Total deficit	£000	(30)	(116)	-	(146)
Carry forward	**£000**	**9,279**	**6,583**	**1,170**	**17,032**
Less Capital Loan to Schools	£000	(153)	(123)	-	(276)
Net carry forward	**£000**	**9,126**	**6,459**	**1,170**	**16,756**

This reserve represents unspent balances remaining at the year-end against school's 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 2011/12:

	£000	2010/11 £000	£000	2011/12 £000
Credited to Taxation and Non Specific Grant Income				
Council tax		238,833		240,900
Non-Domestic Rates		87,424		89,997
Revenue Support Grant				
General	12,695		27,818	
Area Based Grant	33,747		-	
New Homes Bonus	-		375	
Local Services Support	-		1,586	
Council Tax Freeze	-		5,981	
		46,442		35,760
Recognised capital grants and contributions		50,307		78,607
Total		**423,006**		**445,264**
Credited to Services				
Dedicated Schools Grant		275,978		307,452
Standards Fund		30,017		2,708
School Standards Grant		13,955		-
General Sure Start Grant		16,722		287
YPLA grant for Sixth Forms		11,725		10,913
Private Finance Initiative		4,755		4,755
Pupil Premium		-		4,515
Early Intervention		-		18,206
Learning Disabilities Health & Reform				17,396
Other Grants		18,290		7,709
Total		**371,442**		**373,941**

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

Current Liabilities

	31 March 2011 £000	31 March 2012 £000
Receipts in Advance		
Revenue Grants & Contributions	7,257	103
Capital Grants & Contributions	-	-

Long-term Liabilities

	31 March 2011 £000	31 March 2012 £000
Receipts in Advance		
Revenue Grants & Contributions	-	-
Capital Grants & Contributions	32,085	4,836

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.

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides 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 30 on reporting for resources allocation decisions, and further details are shown in Note 37. Grant receipts in advance at 31 March 2012 are shown in Note 37.

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 2011/12 is shown in Note 33.

Other Public Bodies

During 2011/12, the Pension Fund had an average balance of £3.1m deposited with the Council, which paid £28,253 interest for these deposits. The Council charged the Fund £1.3m 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 Hastings and Rother Primary Care Trust and the East Sussex Downs and Weald Primary Care Trust are chaired by a member of the Council. Details of these arrangements are shown in Note 32.

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 50), for the balances held by the Council at 31 March 2012.

A Councillor/Member of ESCC is also a Director of Ingham House Ltd, Ingham House Day Centre. This organisation has received payments from ESCC in 2011-12 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 £193,091.26 for residential care and £63,608 for day care.

The High Weald Unit of the Economy, 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 £15,180. There were no long term debts to the company at 31 March 2012.

South Downs National Park Authority – The South Downs 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, has been 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 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.

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.

	2010/11 (Restated) £000	2011/12 £000
Opening Capital Financing Requirement	**334,334**	**340,473**
Property, Plant and Equipment	74,405	140,327
Intangible assets	232	397
Assets Held for Sale	296	696
Revenue Expenditure Funded from Capital under Statute	5,243	14,228
Total capital investment	**80,176**	**155,648**
Capital receipts	(1,000)	(1,000)
Government grants and contributions	(50,307)	(24,691)
Revenue financing	(6,869)	(32,992)
Total financing other than from loans	**(58,176)**	**(58,683)**
Long Term capital debtors	119	(51)
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(15,980)	(45,915)
Closing Capital Financing Requirement	**340,473**	**391,472**

Explanation of movements in year	2010/11 £000	2011/12 £000
Increase in underlying need to borrowing (unsupported by government financial assistance)	**6,139**	**50,998**

The capital financing requirement has been restated, to include long term capital debtors, by £0.653m at 1 April 2010 and then a further £0.119m at 1 April 2011.

40. Leases

Authority as Lessee

Finance Leases - The Council has three assets classed as finance leases. The assets are on street parking machines in Lewes and Eastbourne, 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 2011	31 March 2012
	£000	£000
Vehicles, Plant, Furniture and Equipment	906	691

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 2011	31 March 2012
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
Current	238	247
Non-current	372	125
Finance costs payable in future years	27	9
Minimum lease payments	**637**	**381**

The current liability is included in the short term creditors and the non-current liability is included in other long term liabilities in the balance sheet.

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012
	£000	£000	£000	£000
Not later than one year	256	256	238	247
Later than one year and not later than five years	381	125	372	125
Total	**637**	**381**	**610**	**372**

Operating Leases - The Council leases land and buildings and vehicles, plant, furniture and equipment under operating leases. The lease period of land and buildings is typically 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 2011	31 March 2012
	£000	£000
Not later than one year	4,105	3,541
Later than one year and not later than five years	10,328	9,911
Later than five years	17,678	19,179
Total	**32,111**	**32,631**

The expenditure charged to during the year in relation to these leases was:

	2010/11	2011/12
	£000	£000
Vehicles	676	484
Schools Equipment	1,045	915
Land and Buildings	2,468	2,421
Total	**4,189**	**3,820**

Other payments for the renting and hiring of facilities in 2011/12 was £776,000 (£1.250m 2010/11).

Authority as 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 2011	31 March 2012
	£000	£000
Not later than one year	1,624	1,429
Later than one year and not later than five years	391	1,445
Later than five years	109	117
Total	**2,124**	**2,991**

The total income received from leasing, renting and hiring of facilities in 2011/12 was £2.729m (£2.721m 2010/11).

41. Other long term liabilities, including Private Finance Initiatives and Similar Contracts

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2011	31 March 2012
	£000	£000
Long Term PFI Liabilities	31,929	95,555
Long Term Finance Lease Liabilities (Note 40)	372	125
Financial Guarantee	-	54
Long Term Creditors	-	1
Total	**32,301**	**95,735**

Value of PFI assets at each balance sheet date and analysis of movement in those values.

Peacehaven Schools PFI

	Hoddern Junior £000	Telscombe Cliffs £000	Meridian £000	Peacehaven Sec. £000	Peacehaven Infant £000	Total £000
Value of Assets						
1 April 2011	**2,494**	**5,138**	**256**	**10,567**	**1,173**	**19,628**
Additions	-	-	-	368	-	368
Revaluations	-	-	-	-	-	-
Depreciation	(76)	(156)	(7)	(320)	(36)	(595)
31 March 2012	**2,418**	**4,982**	**249**	**10,615**	**1,137**	**19,401**

Waste PFI

	Hollingdean WTS	Hollingdean MRF	Crowborough HWRS	Maresfield WTS & HWRS	Whitesmith Composting Facility	Newhaven Energy Recovery facility	Total
	£000	£000	£000	£000	£000	£000	£000
Value of Assets							
1 April 2011	**5,086**	**5,085**	**2,449**	**3,228**	**9,602**	**-**	**25,450**
Additions	-	-	-	-	-	96,965	96,965
Revaluations	-	-	489	-	-	-	489
Depreciation	(155)	(154)	(81)	(95)	(211)	-	(696)
31 March 2012	**4,931**	**4,931**	**2,857**	**3,133**	**9,391**	**96,965**	**122,208**

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.

	Reimbursement of capital expenditure	Interest	Service charge
	£000	£000	£000
Within 1 year: 2012/13	2,234	4,631	16,533
Within 2 to 5 years: 2013/14 to 2016/17	10,355	17,305	72,244
Within 6 to 10 years: 2017/18 to 2021/22	12,508	18,392	107,355
Within 11 to 15 years: 2022/23 to 2026/27	22,221	13,933	116,780
Within 16 to 20 years: 2027/28 to 2031/32	30,030	7,098	132,167
Within 21 to 22 years: 2032/33	7,147	393	28,447

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 2012, and assuming a 3.0% inflation rate for the remaining life of the contract, the payments to be made are set out below:

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent
	£000	£000	£000	£000
Within 1 year: 2012/13	456	1,561	1,382	316
Within 2 to 5 years: 2013/14 to 2016/17	2,379	5,692	5,953	1,573
Within 6 to 10 years: 2017/18 to 2021/22	4,750	5,339	8,503	2,736
Within 11 to 15 years: 2022/23 to 2026/27	6,777	2,132	8,638	3,233

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 deferred liability as at 31 March 2012 is £98.24m (£83.88m for Waste PFI, and £14.36m for Peacehaven Schools PFI), and as at 31 March 2011 was £34.4m (£19.6m for Waste PFI, and £14.8m for Peacehaven Schools PFI). That part of the deferred liability due to be repaid in the next year is included under short term creditors in the Balance Sheet with the balance being shown under Other Long Term Liabilities. The breakdown between short term and long term liabilities is shown in the table below.

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 unitary payments under the Waste PFI have also included payments in advance in respect of assets that the contractor is required to provide. These prepayments are shown in the Waste PFI Prepayment Reserve, see Note 10, and are then used to partly repay the long term liability that arises when the asset becomes operational.

Values of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values are shown below. During 2011/12 the Newhaven energy recovery facility was completed at a value of £97m with £30.6m being used from the Waste PFI Prepayment Reserve. There remains only one further asset to be provided by the contractor, the Pebsham household waste recycling centre which is expected to become operational in 2012/13 at a value of £973,000 which will be offset by the remaining balance of £361,000 in the Waste PFI Prepayment Reserve thereby generating a net increase in liability of £612,000.

	Waste PFI	Schools PFI	Total	Included in Short Term Creditors	Included in long term Liabilities
	£000	£000	£000	£000	£000
Balance outstanding at 1 April 2011	**19,645**	**14,774**	**34,419**	**2,490**	**31,929**
New operational assets	96,965	-	96,965	-	96,965
Use of prepayment reserve	(30,649)	-	(30,649)	-	(30,649)
Lease principal repayment	(2,078)	(412)	(2,490)	200	(2,690)
Balance outstanding at 31 March 2012	**83,883**	**14,362**	**98,245**	**2,690**	**95,555**

42. Impairment and Revaluation Losses

To determine if there has been any material downward valuation in assets, the Council undertook an impairment review for properties not part of those selected for valuation in the current year. The Council has recognised an impairment of £14.5m in the Comprehensive Income and Expenditure Statement and £1.6m in the Revaluation Reserve, in relation to its land and buildings, including Schools. 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.

43. Termination Benefits & Exit Packages

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. In addition, there is a Voluntary Severance Scheme, which allows Council employees to apply for voluntary severance. Its purpose is to help ensure the efficient running of the Council, to help the Council reach its cost reduction targets and to minimise the need for compulsory redundancies in the future.

The Council terminated the contracts of 493 employees during 2011/12, incurring liabilities of £6.1m (359 terminations at a cost of £5.6m in 2010/11). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2011/12 and 2010/11 are shown in the tables below. As disclosed in Note 34 above the exit package costing £206,000 in 2011/12 was in respect of the departure of the Director of Corporate Resources. There was no compensation for loss of office for any Director in 2010/11 but enhanced pension benefits for 3 years augmentation with a cost to the Council of £195k applied in respect of the former Chief Executive, again as disclosed in Note 34.

Exit Packages 2011/12

Exit package cost band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	104	695	287	1,824	391	2,519
£20,000 to £39,999	9	232	68	1,759	77	1,991
£40,000 to £59,999	6	284	9	415	15	699
£60,000 to £79,999	3	196	4	272	7	468
£80,000 to £99,999	1	97	-	-	1	97
£100,000 to £149,999	-	-	1	110	1	110
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	1	206	1	206
Total	**123**	**1,504**	**370**	**4,586**	**493**	**6,090**

Exit Packages 2010/11						
	Compulsory redundancies		Other departures agreed		Total number of exit packages	
Exit package cost band	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	63	389	206	1,473	269	1,862
£20,000 to £39,999	10	286	51	1,379	61	1,665
£40,000 to £59,999	3	145	9	430	12	575
£60,000 to £79,999	1	70	11	800	12	870
£80,000 to £99,999	-	-	2	182	2	182
£100,000 to £149,999	-	-	2	248	2	248
£150,000 to £199,999	-	-	1	195	1	195
£200,000 to £249,999	-	-	-	-	-	-
Total	77	890	282	4,707	359	5,597

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 2011/12, the Council incurred a total of £17.96m 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 £3.2m (£3.1m in 2010/11). These figures compare to an amount of £18.8m payable in 2010/11 (14.1% of pensionable pay), and £3.1m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, the Agency uses a notional fund as the basis for calculating the employer's contribution rate. However, it is not possible to identify the 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.

At 31 March 2012, the Council owed £2.14m to the Teachers' Pension Agency for employer's 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 45.

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 Accounting Policies note 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 contains 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.

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:

	2010/11 £000	2011/12 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- Current Service Cost	29,907	24,907
- Past Service Cost	(112,774)	608
- Settlements and Curtailments	2,310	2,923
Financing and Investment Income and Expenditure:		
- Interest Cost	62,650	54,646
- Expected Return on Scheme Assets	(50,445)	(52,939)
Total Post Employment Benefit Charged/(credited) to the Surplus or Deficit on the Provision of Services	**(68,352)**	**30,145**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement - Actuarial gains and losses	(185,862)	73,904
Total Post Employment Benefit Charged/(credited) to the Comprehensive Income and Expenditure Statement	**(254,214)**	**104,049**
Movement in Reserves Statement		
Reversal of net charges/(credits) made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	288,072	(72,335)
Employers contributions payable to scheme charged to General Fund	**33,858**	**31,714**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £258.8m (£184.9.m in 2010/11)

Assets and Liabilities in Relation to Post-employment Benefits

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

	2010/11 £000	2011/12 £000
Opening balance at 1 April:	**1,224,665**	**995,381**
Current Service Cost	29,907	24,907
Interest Cost	62,650	54,646
Contributions by scheme participants	9,384	8,931
Actuarial (gains) and losses	(182,307)	45,468
Past Service Cost/(gains)	(112,774)	608
Losses on Curtailments	2,310	2,923
Estimated Unfunded Benefits Paid	(4,785)	(4,940)
Estimated Benefits paid	(33,669)	(36,099)
Closing balance at 31 March:	**995,381**	**1,091,825**

Reconciliation of fair value of the scheme assets:

	2010/11	2011/12
	£000	£000
Opening balance at 1 April:	**708,728**	**767,516**
Expected rate of return	50,445	52,939
Contributions by scheme participants	9,384	8,931
Employer contributions	29,073	26,774
Contributions in respect of unfunded benefits	4,785	4,940
Actuarial gains and (losses)	3,555	(28,436)
Unfunded benefits paid	(4,785)	(4,940)
Benefits paid	(33,669)	(36,099)
Closing balance at 31 March:	**767,516**	**791,625**

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 £24m (2010/11: £54m).

Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000
Present Value of Liabilities: Local Government Pension Scheme	(779,008)	(770,568)	(1,224,665)	(995,381)	(1,091,825)
Fair value of assets in the Local Government Pension Scheme	609,195	507,975	708,728	767,516	791,625
Deficit in the scheme: Local Government Pension Scheme	**(169,813)**	**(262,593)**	**(515,937)**	**(227,865)**	**(300,200)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,091.8m (£995.4m in 2010/11) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £300.2m (£227.9m in 2010/11).

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 2013 is £25.1m.

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 £418.2m, £170.9m and £423.5m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2012. There is also a liability of approximately £36.8m in respect of LGPS unfunded pensions and £42.4m in respect of Teachers' unfunded pensions. The equivalent amounts at 31 March 2011 were: £372.6m, £146.6m and £402.6m in respect of employee members, deferred pensioners, and pensioners respectively. 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, based on the calculations in the latest full valuation of the scheme as at 31 March 2010 rolled forward to the Balance Sheet date allowing for the different assumptions required by accounting standards.

The principal assumptions used by the actuary have been:

	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.5%	6.3%
Bonds	4.9%	4.4%
Property	5.5%	4.4%
Cash	4.6%	3.5%
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	21.3 Years	
Women	23.4 Years	
Longevity at 65 for future pensioners		
Men	23.3 Years	
Women	25.7 Years	
Rate of inflation/Pension Increase Rate	2.8%	2.5%
Rate of increase in salaries	5.1%	4.8%
Expected Return on Assets	6.9%	5.9%
Rate for discounting scheme liabilities	5.5%	4.8%
Take up option to convert annual pension into retirement lump sum:		
Pre 31 March 2008	50%	50%
Post 1 April 2008	75%	75%

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

	31 March 2011	31 March 2012
	%	%
Equity investments	78	80
Bonds	8	9
Property	8	9
Cash	6	2
Total	**100**	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Difference between the expected and actual return on assets	(14.09)	(29.75)	21.48	0.46	(3.59)
Experience gains and (losses) on liabilities	(3.71)	0.07	0.02	8.16	(1.46)

At 31 March 2012, the Council owed £2.93m 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 98 to 127.

46. Contingent Liabilities

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 instructed Counsel on the matter and responded to the claim. In the course of the year, the Council were unsuccessful at the lower court, but have obtained leave to appeal and are in the process of doing so. This matter is therefore still ongoing, with the final outcome and associated costs still uncertain.

There is a Common Registration issue with Crowborough Golf Club, where the Council may be responsible for the other parties' legal fees, which are not known at the moment.

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 £82,092 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 First Tier Tribunal (Tax) heard the Isle of Wight case in May 2012 but a judgement is not expected until September 2012.

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 in addition to the half-yearly treasury management report.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Full Council on 8 February 2011 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £399 million. This is the maximum limit of external borrowings or other long term liabilities;

- The Operational Boundary was expected to be £379 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% and 45% 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 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, 2010/11 and 2011/12.

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 Council at 31 March 2012 are detailed below:

UK Investment without Government Equity Holding

- Up to a maximum of £60m, deposited up to a period of one year, with any of the following: Barclays, Santander UK, HSBC, Nationwide, Individual AAA rated Treasury Type Money Market Funds, Individual AAA rated Cash Type Money Market Funds and Local Authorities;
- 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:

Rating Agency	Long Term	Short Term
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 if market risk conditions tighten.

UK Investment with Government Equity Holding of over 35%

- Up to a maximum of £60m, deposited up to a period of three months, with any of the following: Lloyds/HBOS and NatWest/RBS.
- Only Banks which meet the following minimum rating criteria for at least two of the designated agencies to be used.

Rating Agency	Long Term	Short Term
Fitch	A	F1
Moody	A2	P-1
Standard & Poors	A	A-1

- The current policy is overnight but the policy allows changes to reflect market conditions if and when they improve.
- The policy retains the ability to revert to some or even extensive use of the Government's Debt Management Account Deposit Facility 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 set in accordance with internal parameters.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £271m 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 Council's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

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 2012, the Council's investments and cash deposits included £284.7m 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 summaries the Council's maximum exposure to credit risk from customers, based on experience of default and adjusted to reflect current market conditions.

The Council does not generally allow credit for its customers, however £11.4m in 2011/12 (£13.2m 2010/11) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2011	31 March 2012
	£000	£000
Less than three months	9,720	8,359
Three to five months	1,816	787
Five months to one year	804	1,003
More than one year	874	1,263
Total	**13,214**	**11,412**

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:

	31 March 2011	31 March 2012
	£000	£000
Less than one year (current assets)	239,397	306,220
Between one and two years	774	722
	240,171	**306,942**

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 Limit	Approved Maximum Limit	31 March 2011	31 March 2012
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	79,171	89,782
Between one and two years	0%	40%	3,540	4,688
Between two and five years	0%	60%	24,040	45,010
Between five and ten years	0%	80%	31,711	36,698
More than ten years	0%	80%	214,272	273,600
			352,734	**449,778**

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 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 monitors market and forecasts 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 2011/12 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	2,847
Impact on Comprehensive Income and Expenditure	-
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 £2.8million (£1.8 million in 2010/11) 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 National Park Authority

The South Downs Joint Committee was wound up on 31 March 2011 when it was superseded by the South Downs National Park Authority.

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 holds monies and 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 Ashdown Forest is held on trust for the purposes of promoting the conservation of the Ashdown Forest as a quiet and area of outstanding natural beauty and as an amenity and place of resort for members of the public. PKF (UK) LLP separately provides an independent examination of this Trust Fund.

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

	2011/12			
	Opening Balance £000	Income in Year £000	Expenditure £000	Closing Balance £000
Sole trustee funds				
Music Trust	693	4	(16)	681
Robertsbridge Youth Centre	103	1	(1)	103
Lewes Educational Charity	46	2	(2)	46
How Scholarship	3	1	(1)	3
Wright Legacy	2	-	-	2
Total sole trustee funds	847	8	(20)	835
Ashdown Forest Trust	1,405	71	(71)	1,405
General trust funds	64	1	(1)	64
Bequests	119	-	-	119
Voluntary funds	11	-	(13)	(2)
Comforts funds	18	23	(8)	33
Safe Custody	57	2	(6)	53
Total trust funds	**2,521**	**105**	**(119)**	**2,507**

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 2011/12, £14,227,590 (£5,242,590 in 2010/11) 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 County Council has a 19% interest in Woodland Enterprises, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The total assets less current liabilities of the Company were £880,001 as at 31 March 2012. The legal liability of the Council is limited to £1.

As no amount has been invested in this company, since it is limited by guarantee, and investments are carried at cost, the Council has not recognise any amount as an investment in this company.

53. Local Services Support Grant (LSSG)

Local Services Support Grant is a general grant allocated directly to local authorities as additional revenue funding to areas. The purpose of the grant is to provide support to local authorities towards expenditure lawfully incurred or to be incurred by them. It is allocated according to specific policy criteria rather than general formulae. The grant allocation to the Council is currently as follows:

	2011/12 £000
Local Services Support Grant	1,586

Local Services Support Grant is paid as unringfenced funding under Section 31 of the Local Government Act 2003. As unringfenced funding, there are no terms and conditions attached to its payment and the Council has the freedom to use it to meet its locally identified priorities. The grant is administered and paid by the Department for Communities and Local Government through 12 monthly payments.

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 2012/13. The scheme final year is likely to be 2012/13. The allowances are reflected at fair value and are subsequently re-valued each financial year.

The Council has valued the allowances for 2011/12 at £nil. The council's allocation for 2011/12 was 102,585 tonnes, including a surplus of 23,270 carried forward from prior years. An estimated 35,619 permits were used. In addition, 2,000 were sold to City of York Council for £180 (9p per permit) leaving a surplus of 64,966. These surplus permits can be carried forward to be used in 2012/13.

As at 31 March 2011, the council had estimated it would have 15,611 surplus permits from 2010/11, valued at £165,542 (£10.60 per permit). This has been written down to nil. Authorities which 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.

55. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held:

	Art Collection
	£000
Cost or valuation	
1 April 2010	**31**
Movements	**-**
31 March 2011	**31**
Cost or valuation	
1 April 2011	**31**
Impairment Losses recognised in Surplus or Deficit on the Provision of Services	(18)
31 March 2012	**13**

There were no additions or disposals during the year. The Art collection was revalued in 2011/12 based on insurance replacement values. There have been no additions, valuations or disposals of heritage assets, other than that recorded above for 2011/12, in the past five years.

Heritage Assets: Further Information on Collections

East Sussex Record Office

The East Sussex Record Office holds the historic and administrative archives for the County of East Sussex and, under an 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 resources recording the county's and city's heritage.

The archives, ranging from a single piece of paper to thousands of documents, include paper and parchment, books, maps, photographs and modern media, and are held by us under a variety of terms, the most common ones being deposit (long-term loan), gift or purchase. The majority of archives held are on deposit. Obtaining a valuation of all these assets would be a lengthy, resource intensive and costly exercise, and therefore no valuation was obtained.

East Sussex Schools Library and Museum Service

The Artefact loan box collection was established in 1962 and developed throughout the 1960's and 1970's. Record keeping consisted of hand written ledgers with rather sparse information about the provenance of items. Most were purchased or gifted from individuals or other museums. Many of the artefacts have been presented in wooden loan boxes which are available for schools to borrow as part of a subscription service. The loan boxes are catalogued using the same computerised management system as for book loans. There are still a large number of items owned by the service which are not included in loan boxes.

The collection has a wide scope, including:

- Natural history e.g. lots of taxidermy specimens, mostly British wildlife
- Fossils and minerals
- Historical artefacts, both original items e.g. small mummified animals, Roman and Greek everyday items, flints and tools, and museum standard models e.g. model of the 'Victory', replica Viking helmet
- Geographical and cultural items e.g. bronzes and beadwork from Africa, textiles and masks from South East Asia
- Art and design e.g. samples of fabric, ceramics, large collection of posters depicting well known works of art.

There are also some travelling displays which are large sets that can be constructed in schools depicting a Victorian classroom, laundry or kitchen and a World War Two living room with many original artefacts. These items have not been included in the accounts because the Council does not consider that a reliable cost or valuation information can be obtained for these items, due to the diverse nature of these items and lack of comparable market values.

Art Collection

The Art Collection consists of four oil on canvas paintings, three dating from the 1880's and one more recent. It includes a portrait of Henry Thomas Pelham by Frank Holl, a portrait of John George Dodson by Frank William Warwick Topham, Lewes from Chapel Hill by Edmund Niemann and a portrait of HM Queen Elizabeth II by Amanda Bigden.

The Council's external valuer for its art work (Gorringes Auction House) carried out a full valuation of the collection of paintings as at 31 March 2012. The valuations were based on those for insurance replacement purposes.

56. Heritage Assets: Change in Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in Accounting Policies, the Council now requires heritage assets to be carried in the Balance Sheet at valuation.

Heritage Assets

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as Property, Plant and Equipment (under the asset classes of Vehicles, Plant, Furniture and Equipment or Community Assets) classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Council's accounting policies for the recognition and measurement of Heritage Assets are set out in Note 2 (xxxii) of the Accounting Policies on page 37.

In applying the new policy, the Council has identified:

- East Sussex Record Office, Lewes which preserves and makes accessible records relating to the County and its people;
- Schools Library and Museum Service (SLAMS), Eastbourne which provides library services, historical artefacts and advice for all teachers at all schools in East Sussex and Brighton;
- An art collection within offices at County Hall, Lewes
- Listed buildings and monuments owned by the Council or on Council land.

Note 55 includes further information about the collections. However no individual item in the Record Office or SLAMS is valued at more than £20,000 which is the Council's de-minimus level for capital expenditure to be recognised as an asset in the Balance Sheet.

The Art Collection was previously held within Property, Plant, and Equipment at £31,000 and is now recognised as a Heritage Asset, and following a valuation measured at £13,000. The asset has no revaluation reserve balance so the revaluation loss of £18,000 will be charged to the Comprehensive Income and Expenditure Statement. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Accounting Statements to apply the new policy.

The Council has reviewed its listed buildings register and established that a number of the buildings are being used for the delivery of services. These buildings therefore continue to be included as property, plant, and equipment operational assets on the Council's Balance Sheet. In addition there are a number of listed buildings that are non operational assets, have not been previously valued and are not on the Council's Balance Sheet. The assets are:

- The Sugar Loaf folly, Dallington
- Remains of Wayside Cross, Firle
- Albert Memorial Well, Frant
- Walls around Castle Precincts car park, Lewes
- Remains of Castle Walls, south of Castlegate House, Lewes

For these assets, information on cost or value is not available and the cost of obtaining the information outweighs the benefits to the users of the financial statements.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Art Collection heritage assets is presented at its valuation of £31,000. The asset was previously recognised as Property, Plant and Equipment and so has been reclassified in its entirety. The asset was not depreciated and had no revaluation reserve balance to transfer.

- The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet at 1 April 2010

	Opening Balances as at 1 April 2010	**Restatement**	**Restatement required to Opening Balances as at 1 April 2010**
	£000	**£000**	**£000**
Property, Plant and Equipment	843,562	(31)	843,531
Heritage Assets	-	31	31
Long-term Assets	**874,887**	**-**	**874,887**
Total Net Assets	**174,041**	**-**	**174,041**

Comprehensive Income and Expenditure Statement

There has been no restatement of any of the lines in the Comprehensive Income and Expenditure Statement for 2010/11.

Movement in Reserves Statement

There has been no restatement of any of the lines in the Movement in Reserves Statement for 2010/11.

The adjustments that have been made to that Balance Sheet for 31 March 2011 over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Balance Sheet at 31 March 2011

	As previously Stated 31 March 2011	**Restatement**	**As Restated 31 March 2011**
	£000	**£000**	**£000**
Property, Plant and Equipment	902,932	(31)	902,931
Heritage Assets	-	31	31
Long-term Assets	**939,511**	**-**	**939,511**
Total Net Assets	**545,965**	**-**	**545,965**

The effect of the change in accounting policy in 2010/11 has been that Heritage Assets relating to the Art Collection have been recognised at £31,000 on the Balance Sheet and the amount previously recognised as Property, Plant and being reclassified in entirety. There is no revaluation reserve balance at 31 March 2011.

As the impact of the accounting policy change has only resulted in the reclassification of £31,000 of assets from property, plants and equipment to heritage assets, with no impact on net assets, reserves or the Comprehensive Income and Expenditure Statement, the 1 April 2010 Balance Sheet has not been included in these Accounting Statements. Similarly, there have been no impacts on the Movement in Reserves Statement.

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 73 participating employers. A full list of participating employers is given in note 27.

Fund Account for Year Ended 31 March 2012
Dealings with Members, Employers and Others directly involved in the Scheme.

2010/11				2011/12	
£000	£000			£000	£000
		Contributions	**Notes**		
77,592		From Employers	7	78,364	
27,728	105,320	From Employees or Members		26,979	105,343
	8,339	**Transfers in**	8		38,637
	113,659				**143,980**
	90,488	**Benefits**	9		104,690
	9,820	Payments to and on account of leavers	10		4.176
	1,417	Administrative expenses	11		1,608
	101,725				**110,474**
	11,934	Net Additions / (Withdrawals) from dealings with members			**33,506**
		Returns on investments			
	21,749	Investment income	12		25,865
	(1,071)	Taxes on Income	13		(1,122)
	107,813	Profit and losses on disposal of investments and changes in the market value of investments	15a		17,681
	(5,723)	Investment management expenses	14		(6,979)
	122,768	Net returns on investments			**35,445**
	134,702	Net Increase in fund during the year			68,951
	1,867,418	Add Opening Net Assets of the Scheme			2,002,120
	2,002,120	Closing net assets of the scheme			**2,071,071**

Net Assets Statement for the year ended 31 March 2012

31 March 2011 £000		Notes	31 March 2012 £000
1,870,691	Investment Assets	15	2,019,482
55,683	Other Investment Balances	20	35,905
123,623	Cash deposits with the Custodian	15	45,273
-	Cash deposits with the Council	15	977
2,049,997			**2,101,637**
(54,337)	Investment Liabilities	21	(35,147)
8,850	Current Assets	20	8,953
(2,390)	Current Liabilities	21	(4,372)
2,002,120	**Net assets of the fund available to fund benefits at the period end.**		**2,071,071**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2012 and of the movements for the year then ended.

Andrew Travers
Interim Director of Corporate Resources
29 June 2012

1. Description of the Fund

The East Sussex Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council. The county Council is the reporting entity for this pension fund and the Fund is overseen by the East Sussex Pension Fund Investment Panel.

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General
The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended).

- the LGPS (Administration) Regulations 2008 (as amended).

- the LGPS (Management and Investment of Funds) Regulations 2009.

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme. Organisations participating in the East Sussex Pension Fund include:

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

There are 73 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2011	31 March 2012
Number of employers participating in the scheme	66	73
Number of employees		
County Council	9,848	9,504
Other employees	11,582	11,546
Total	**21,430**	**21,050**
Number of pensioners		
County Council	6,667	6,966
Other employers	8,360	8,772
Total	**15,027**	**15,738**
Deferred pensioners		
County Council	9,458	10,242
Other employers	10,387	11,262
Total	**19,845**	**21,504**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership, and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employer contribution rates are set every three years following a valuation of the Pension Fund's assets and potential liabilities. The most recent actuarial valuation was as at 31 March 2010 with the new employer rates being effective from 1 April 2011.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund scheme handbook available on the Pension Fund Website.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the *Code of Practice on Local Authority accounting in the United Kingdom 2011/12* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

3. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).
Bulk (group) transfers are accounted for on a receipts basis in accordance with the terms of the transfer agreement.

c) Investment income

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

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

iii. Distributions from pooled funds - Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

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

f) Administrative

All administrative expenses are accounted for on an accruals basis. 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.

g) Investment management expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition, the fund has negotiated with the following manager that an element of the fee be performance related:

-Marathon Asset Management – Global Equities Mandate.

The performance fee is calculated at the anniversary of the initial investment which commenced in June 2010. £0.4m performance related fees were charged in respect of the 12 months ended June 2011. Any potential fee for the period ended June 2012 will not be known before July 2012. The cost of obtaining investment advice from external consultants is included in investment management charges.

Net assets statement

h) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

v. Market-quoted investments - The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

vi. Fixed interest securities - Fixed interest securities are recorded at net market value based on their current yields.

vii. Unquoted investments - The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

viii. Limited partnerships - Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

ix. Pooled investment vehicles - Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

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

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand.

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving manor factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £108.6 million (£99.6 million at 31 March 2011).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Future assumptions and other estimated uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2010 Valuation the actuary advised that: • A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £170 million (8%) • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £46 million (2%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £43 million (2%).

Debtors	At 31 March 2012, the fund had a balance of sundry debtors of £1.2 million.	Allowance for doubtful debts – the Fund 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.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as a such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £108.6 million. There is a risk that this investment may be under or overstated in the accounts.

There have been no events since 31 March 2012, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category

2010/11 £000		2011/12 £000
77,592	Employers	78,364
27,728	Members	26,979
105,320		**105,343**

By authority

2010/11 £000		2011/12 £000
62,382	Scheduled bodies	61,808
2,977	Admitted bodies	1,976
39,961	Administrative Authority	41,559
105,320		**105,343**

8. Transfers in from other pension funds

2010/11 £000		2011/12 £000
1,500	Group transfers	29,039
6,839	Individual transfers	9,598
8,339		**38,637**

9. Benefits payable

By category

2010/11 £000		2011/12 £000
67,687	Pensions	73,302
21,235	Commutation and lump sum retirement benefits	28,766
1,566	Lump sum death benefits	2,622
90,488		**104,690**

By authority

2010/11 £000		2011/12 £000
52,102	Scheduled bodies	59,072
2,325	Admitted bodies	2,558
36,061	Administrative Authority	43,060
90,488		**104,690**

10. Payments to and on account of leavers

2010/11 £000		2011/12 £000
65	Refunds to members leaving service	90
-	Group transfers	-
9,755	Individual transfers	4,086
90,488		**4,176**

11. Administrative expenses

2010/11 £000		2011/12 £000
1,220	Administration and Processing	1,305
10	Legal fees	9
37	External audit fees	40
22	Internal audit fees	24
128	Actuarial fees	230
1,417		**1,608**

12. Investment income

2010/11 £000		2011/12 £000
1,600	Fixed interest securities	2,119
458	Index linked securities	655
15,714	Equity dividends	14,159
2,928	Pooled property investments	5,290
-	Pooled investments - unit trusts and other managed funds	3,148
923	Interest on cash deposits	473
123	Class Actions	21
3	Commission Recapture	-
21,749		**25,865**

13. Taxes on income

2010/11 £000		2011/12 £000
-	Withholding tax - fixed interest securities	(1)
(766)	Withholding tax - equities	(760)
(305)	Withholding tax - pooled	(361)
(1,071)		**(1,122)**

14. Investment expenses

2010/11 £000		2011/12 £000
5,329	Management fees	6,594
202	Custody fees	173
17	Performance monitoring service	17
175	Investment consultancy	195
5,723		**6,979**

15. Investments

2010/11 £000		2011/12 £000
	Investment assets	
132,623	Fixed interest securities	141,896
46,979	Index Linked	52,549
730,368	Equities	484,310
735,467	Pooled Investments	1,087,520
173,175	Pooled property investments	189,360
38,762	Infrastructure	51,910
13,015	Commodities	10,984
	Derivative contracts:	
302	Purchased/written options	315
-	Forward Currency Contracts	638
1,870,691		**2,019,482**

123,623	Cash deposits with Custodian	45,273
-	Cash deposits with ESCC	977
55,683	Other Investment Balances	35,905
2,049,997	**Total investment assets**	**2,101,637**
(54,337)	Investment Liabilities	(35,147)
8,850	Current Assets	8,953
(2,390)	Current Liabilities	(4,372)
2,002,120	**Net investment assets**	**2,071,071**

15a. Reconciliation of movements in investments and derivatives

	Market Value 1 April 2011	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 march 2012
	£000	£000	£000	£000	£000
Fixed interest securities	**132,623**	3,091	(950)	7,132	**141,896**
Index Linked	**46,979**	12,693	(14,440)	7,317	**52,549**
Equities	**730,368**	196,589	(400,216)	(42,431)	**484,310**
Pooled investments	**735,467**	354,596	(40,232)	37,689	**1,087,520**
Pooled property investments	**173,175**	21,818	(10,924)	5,291	**189,360**
Infrastructure	**38,762**	10,261	(894)	3,781	**51,910**
Commodities	**13,015**	1,018	(1,865)	(1,184)	**10,984**
	1,870,389	600,066	(469,521)	17,595	**2,018,529**
Derivative contracts					
■ Futures	-	-	(2,175)	2,175	-
■ Purchased/written options	302	5,996	(3,952)	(2,031)	315
■ Forward currency contracts *	(116)	5,351	(4,493)	(104)	638
	1,870,575	**611,413**	**(480,141)**	**17,635**	**2,019,482**
Other investment balances:					
■ Cash deposits	123,623			46	45,273
■ Cash deposits held at ESCC	-				977
■ Other Investment Balances	55,683				35,905
■ Investment Liabilities *	(54,221)				(35,147)
■ Current Assets	8,850				8,953
■ Current Liabilities	(2,390)				(4,372)
Net investment assets	**2,002,120**			**17,681**	**2,071,071**

	Market Value 1 April 2010	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 march 2011
	£000	£000	£000	£000	£000
Fixed interest securities	**95,822**	32,674	(1,040)	5,167	**132,623**
Index Linked	**-**	72,410	(26,540)	1,109	**46,979**
Equities	**475,075**	839,799	(609,069)	24,563	**730,368**
Pooled investments	**808,125**	663,475	(803,568)	67,435	**735,467**
Pooled property investments	**165,097**	112,952	(112,514)	7,640	**173,175**
Infrastructure	**36,216**	3,245	(787)	88	**38,762**
Commodities	**-**	12,159	(1,259)	2,115	**13,015**
	1,580,335	1,736,714	(1,554,777)	108,117	**1,870,389**
Derivative contracts					
■ Futures	-	236	(118)	(118)	-
■ Purchased/written options	5	985	(108)	(580)	302
■ Forward currency contracts	(4)	7,333	(7,855)	410	(116)
	1,580,336	**1,745,268**	**(1,562,858)**	**107,829**	**1,870,575**
Other investment balances:					
■ Cash deposits	284,568			(16)	123,623
■ Cash deposits held at ESCC	-				-
■ Other Investment Balances	10,067				55,683
■ Investment Liabilities *	(11,713)				(54,221)
■ Current Assets	8,153				8,850
■ Current Liabilities	(3,993)				(2,390)
Net investment assets	**1,867,418**			**107,813**	**2,002,120**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £537k (£1.679m in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

15b. Analysis of investments (excluding derivative contracts)

2010/11		2011/12
£000		£000
	Fixed interest securities	
	UK	
132,623	Public sector quoted	141,896
	Overseas	
-	Public sector quoted	-
132,623		**141,896**
	Index linked Securities	
	UK	
20,119		24,096

2010/11 £000		2011/12 £000
	Overseas	
26,860		28,453
46,979		**52,549**
	Equities	
	UK	
133,752	Quoted	44,369
105,580	Unquoted	120,879
	Overseas	
491,036	Quoted	319,062
730,368		**484,310**
	Pooled funds - additional analysis	
	UK	
468,604	Unit trusts	594,385
	Overseas	
266,863	Unit trusts	493,135
735,467		**1,087,520**
173,175	Pooled property investments	189,360
38,762	Infrastructure	51,910
13,015	Commodities	10,985
224,952		**252,255**
1,870,389		**2,018,530**

Analysis of derivatives

Objectives and policies for holding derivatives

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

a) Futures

The 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. The Fund did not hold any future contracts at 31 March 2012.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund’s quoted equity portfolio is in overseas stock markets. The Fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year, the fund bought equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		£000		£000	£000	£000
Greater than 2 months	GBP	28,638	JPY	(3,673,359)	668	-
Up to 2 months	GBP	3,555	EUR	(4,297)	-	(28)
Up to 2 months	GBP	21,861	USD	(34)	-	-
Up to 2 months	JPY	68,519	GBP	(522)	-	(2)
					668	(30)
Net forward currency contracts at 31 March 2012						638
Prior year comparative						
Open forward currency contracts at 31 March 2011					90	(206)
Net forward currency contracts at 31 March 2011						**(116)**

Purchased/written options

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 March 2011	Notional holding	Market value 31 march 2012
			£000	£000	£000	£000
Assets						
Overseas equity purchased	Less than 1 month	Put	-	-	-	315
Overseas equity purchased	One to three months	Put	-	302	-	-
Total Assets				302		315
Liabilities				-		-
Total Liabilities				-		-
Net purchased/written options				**302**		**315**

Investments analysed by fund manager

Market value 31 March 2011 £000	%		%	Market value 31 March 2012 £000
74,504	3.7%	Prudential M&G	4.0%	82,679
352	0.0%	UBS	0.0%	-
85,663	4.3%	East Sussex Pension Fund Cash	0.8%	15,438
318,099	15.9%	Fidelity International	0.0%	5
14,853	0.7%	UBS Infrastructure Fund	1.0%	20,922
23,908	1.2%	Prudential Infracapital	1.5%	30,988
463,545	23.3%	Legal & General	39.5%	816,259
5,977	0.3%	M&G UK Financing Fund	0.6%	12,310
184,710	9.3%	Schroders Property	9.4%	194,808
46,185	2.3%	Harbourvest Strategies	2.5%	50,928
53,455	2.7%	Adams St Partners	2.8%	57,642
58,120	2.9%	M&G Absolute Return Bonds	2.9%	59,217
133,858	6.7%	Ruffer LLP	8.0%	165,573
289,015	14.5%	Lazard Asset Management	14.0%	289,616
138,653	7.0%	Newton Investment Management	8.0%	164,974
103,399	5.2%	Marathon Asset Management	5.0%	102,758
1,994,296				**2,064,117**

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2011 £000	% of total fund	Market value 31 March 2012 £000	% of total fund
L&G UK Equity Index	287,907	15.4%	413,031	20.5%
Newton Real Return (Pooled Fund)	138,653	7.4%	164,974	8.2%
L&G North America Equity Index	80,674	4.3%	141,857	7.0%
L&G Europe (EX UK) Equity Index	31,176	1.7%	115,052	5.7%
Marathon (Pooled Fund)	103,399	5.5%	102,758	5.1%

15c. Stock lending

The East Sussex Fund has not operated a Stock Lending programme since 13th October 2008.

16. Financial instruments

16a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period

31 March 2011 Market Value Designated as fair value through profit and loss	31 March 2011 Loans and receivables	31 March 2011 Financial liabilities at amortised cost		31 March 2012 Market Value Designated as fair value through profit and loss	31 March 2012 Loans and receivables	31 March 2012 Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
132,623			Fixed interest securities	141,896		
46,979			Index linked	52,549		
730,368			Equities	484,310		
735,467			Pooled investments	1,087,520		
173,175			Pooled property investments	189,360		
38,762			Infrastructure	51,910		
13,015			Commodities	10,984		
392			Derivative contracts	983		
	123,623		Cash		45,273	
	-		Cash Held by ESCC		977	
55,683			Other investment balances	35,905		
	8,850		Debtors (Investment)		8,953	
1,926,464	**132,473**	**-**		**2,055,417**	**55,203**	**-**
			Financial liabilities			
(206)			Derivative contracts	(30)		
(54,221)			Other investment balances	(35,147)		
		(2,390)	Creditors (Investment)			(4,372)
(54,427)	**-**	**(2,390)**		**(35,177)**	**-**	**(4,372)**
1,872,037	**132,473**	**(2,390)**		**2,020,240**	**55,203**	**(4,372)**

16b. Net gains and losses on financial instruments

31 March 2011 £000		31 March 2012 £000
	Financial assets	
108,116	Fair value through profit and loss	17,595
(16)	Loans and receivables	46
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
(287)	Fair value through profit and loss	40
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
107,813		**17,681**

16c. Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

Carrying value	Fair value		Carrying value	Fair value
£000	**£000**		**£000**	**£000**
		Financial assets		
1,926,464	1,926,464	Fair value through profit and loss	2,055,417	2,055,417
132,473	132,473	Loans and receivables	55,203	55,203
2,058,937	**2,058,937**	**Total financial assets**	**2,110,620**	**2,110,620**
		Financial liabilities		
(54,427)	(54,427)	Fair value through profit and loss	(35,177)	(35,177)
(2,390)	(2,390)	Financial liabilities at amortised cost	(4,372)	(4,372)
(56,817)	**(56,817)**	**Total financial liabilities**	**(39,549)**	**(39,549)**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16d. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.
Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

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

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

Values at 31 March 2012	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,651,669	203,206	200,542	2,055,417
Loans and receivables	55,203	-	-	55,203
Total financial assets	**1,706,872**	**203,206**	**200,542**	**2,110,620**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(35,177)	-	-	(35,177)
Financial liabilities at amortised cost	(4,372)	-	-	(4,372)
Total financial liabilities	**(39,549)**	**-**	**-**	**(39,549)**
Net financial liabilities	**1,667,323**	**203,206**	**200,542**	**2,071,071**

Values at 31 March 2011	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,559,323	201,373	165,768	1,926,464
Loans and receivables	132,473	-	-	132,473
Total financial assets	**1,691,796**	**201,373**	**165,768**	**2,058,937**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(54,427)	-	-	(54,427)
Financial liabilities at amortised cost	(2,390)	-	-	(2,390)
Total financial liabilities	**(56,817)**	**-**	**-**	**(56,817)**
Net financial liabilities	**1,634,979**	**201,373**	**165,768**	**2,002,120**

17. Nature and extent of risks arising from financial instruments

Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

a) Market risk

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

The objective of the fund's risk management strategy is to identify, manage, and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential Market Movements (+/-)
Total Bonds	6.80%
UK equities	14.90%
Overseas equities	14.80%
Overseas equity unit trusts	15.60%
Pooled property investments	2.70%
Private Equity	8.00%
Infrastructure funds	7.80%
Cash	0.80%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value as at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	45,273	0.80	45,635	44,911
Investment portfolio assets:				
Total Bonds	194,445	6.80	207,667	181,223
UK equities inc Private Equity	759,634	14.90	872,819	646,448
Overseas equities	319,062	14.80	366,283	271,841
Overseas equity unit trusts	493,135	15.60	570,064	416,206
Pooled property investments	189,360	2.70	194,473	184,247
Infrastructure funds	51,910	7.80	55,959	47,861
Commodities	10,984	-	10,984	10,984
Net derivative assets	-	-	-	-
Investment income due	2,175	-	2,175	2,175
Amounts receivable for sales	931	-	931	931
Amounts payable for purchases	(976)	-	(976)	(976)
Total assets available to pay benefits	**2,065,933**		**2,326,014**	**1,805,851**

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2012	As at 31 March 2011
	£000	£000
Cash and cash equivalents	45,273	123,623
Cash balances	977	(1,041)
Fixed interest securities		
UK bonds	165,992	152,742
Overseas bonds	28,453	26,860
Total	**240,695**	**302,184**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. An 80 basis point (bp) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 80 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	45,273	453	(453)
Cash	977	10	(10)
Fixed interest securities			
UK bonds	165,992	1,660	(1,660)
Overseas bonds	28,453	285	(285)
Total change in assets available	**240,695**	**2,408**	**(2,408)**

Asset type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	123,623	1,236	(1,236)
Cash balances	(1,041)	(10)	10
Fixed interest securities			
UK bonds	152,742	1,527	(1,527)
Overseas bonds	26,860	269	(269)
Total change in assets available	**302,184**	**3,022**	**(3,022)**

Currency risk

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

The fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.
The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2011	Asset value as at 31 March 2012
	£000	£000
Overseas Index Linked	26,860	28,453
Overseas quoted securities	491,036	319,062
Overseas unit trusts	266,863	493,135
Total overseas assets	**784,759**	**840,650**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	28,453	32,152	24,754
Overseas quoted securities	319,062	360,540	277,584
Overseas unit trusts	493,135	557,242	429,027
Total change in assets available	**840,650**	**949,934**	**731,365**

Currency exposure - asset type	Asset value as at 31 March 2011	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	26,860	30,352	23,368
Overseas quoted securities	491,036	554,870	427,201
Overseas unit trusts	266,863	301,555	232,171
Total change in assets available	**784,759**	**886,777**	**682,740**

b) Credit risk

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

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

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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits.

c) Liquidity risk

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

The Fund has immediate access to its pension fund cash holdings and the fund also has access to an overdraft facility for short-term cash needs. This facility is only used to meet timing differences on pension payments. As these borrowings are of a limited short-term nature, the fund's exposure to credit risk is considered negligible.

All financial liabilities at 31 March 2012 are due within one year.

Refinancing risk

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

18. Funding arrangements

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.

East Sussex Pension Fund ("the Fund") - Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), effective from 31 March 2010. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to minimise the degree of short-term change in employer contribution rates;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations:
- to take into account reasonable deficit spreading approaches consistent with the above.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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.

Method - 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.

Assumptions - 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%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables; with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.3 years	23.4 years
Future Pensioners	23.3 years	25.7 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, administering authority to the Fund.

Experience over the period since April 2010

Experience has been poorer than expected since the last valuation (excluding the effect of any membership movements). The funding level (excluding the effect of any membership movements) has worsened since the 2010 valuation due to falling real bond yields and lower asset returns than expected.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

19. Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2011/12 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.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

• showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

• as a note to the accounts; or

• by reference to this information in an accompanying actuarial report.

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.

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2011	31 Mar 2012
	£m	£m
Present value of Promised Retirement Benefits	2,303	2,557

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £1,136m in respect of employee members, £443m in respect of deferred pensioners and £978m 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.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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).

Assumptions
The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2012 is to increase the actuarial present value by £83m.

Financial assumptions
My recommended financial assumptions are summarised below:

Year ended	31 Mar 2011 % p.a.	31Mar 2012 %p.a.
Inflation / Pension Increase Rate	2.8%	2.5%
Salary Increase rate	5.1%**	4.8%**
Discount Rate	5.5%	4.8%

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

**Salary increases are 1% p.a. nominal for the period to 31 March 2012, reverting to the long term rate thereafter

Longevity assumption
As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements from 2007 in line with 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

This assumption is the same as at 31 March 2011.

Commutation assumption
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 2008 service.

20. Current assets

31 March 2011 £000		31 March 2012 £000
	Other Investment Balances	
52,959	■ Sales inc Currency	33,667
2,222	■ Investment Income Due	1,734
499	■ Recoverable Taxes	504
3	■ Managers Fee Rebate	-
55,683		**35,905**

31 March 2011 £000		31 March 2012 £000
	Current Assets	
7,807	■ Contributions (Ees & Ers)	7,712
1,043	■ Other Current Assets	1,241
8,850		**8,953**

21. Current liabilities

31 March 2011 £000		31 March 2012 £000
	Investment Liabilities	
52,943	Purchases including currency	33,073
1,394	Managers Fees	1,373
-	Accrued Dividend Income (Creditor)	63
-	Forward Currency Contracts	638
54,337		**35,147**

31 March 2011 £000		31 March 2012 £000
	Current Liabilities	
1,317	Pension Payments (inc Lump Sums)	1,879
1,041	Cash Balances owed to East Sussex	-
20	Professional Fees	25
-	Admin/CBOSS Recharge	1,281
12	Other Current Liabilities	1,187
2,390		**4,372**

22. Additional voluntary contributions

Market value 31 March 2011 £000		Market value 31 March 2012 £000
£15,844	Prudential	£15,123

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2011/12 some members of the pension scheme paid voluntary contributions and transfers in of £1.428m to Prudential to buy extra pension benefits when they retire. £2.741m was disinvested from the AVC provider in 2011/12 (£2.425m 2010/11). The combined value of the AVC funds at 31 March 2012 was £15.123m (See table above). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

23. Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently there is a strong relationship between the council and the pension fund. Each member of the pension fund committee is required to declare their interests at each meeting. 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 Council incurred costs in administering the fund and charged £1.3m to the fund in 2011/12 (£1.2m in 2010/11). The Council's contribution to the fund was £41.6m in 2011/12 (£40.0m in 2010/11). All amounts to the fund were paid in the year. Part of the fund cash balances are invested with the Council under the terms of an agreement. At 31 March 2012, the Council held £0.977m. The average invested throughout the year was £3.1m and earned interest of £0.028m in 2011/12 (£0.018m in 2010/11). The fund used a single cash account with the Council and also held cash as part of the joint treasury management policy.

Key management personnel

The Chief financial officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

24. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2012 totalled £120m (31 March 2011: £154m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment. Also included is the M&G UK Companies Financing Fund.

At 31 March 2012 the unfunded commitment was £103.5 million for private equity, £10.3m for the M&G UK Companies Fund and £6.2m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. All figures expressed are based on relevant exchange rates as at 31 March 2012.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund, which is the major creditor. While the distribution to creditors has not been finalised by the Liquidator, the remaining assets are estimated to be approximately £0.5 million. These are not sufficient to meet their deficit of approximately £3.6 million.

The Valuation Tribunal Service – a Scheduled Body in the Fund – ceased on 22 November 2011 on the retirement of their last active member. Discussions are ongoing between the Administering Authority and the Valuation Tribunal Service regarding the payment of the cessation deficit.

25. Contingent assets

Thirteen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pensions obligations in respect of 7 other admitted bodies are covered by:

- 4 guarantees by local authorities participating in the Fund;
- 1 Parent Company Guarantee;
- 2 deposits, equal to the value of the bond required, held by East Sussex County Council.

At 31 March 2012 the Fund has contractual commitments of £226.2 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 £56.9m to the infrastructure funds managed by UBS and M&G. The property manager, Schroders, had also made commitments of £15.8m within its mandate.

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.

26. Impairment losses

During 2011/12 the fund has not recognised any impairment losses.

27. Active Participating Authorities in the Fund

East Sussex Pension Fund - Active Participating Employers

Employer	Contribution Rate					
	2011/12		2012/13		2013/14	
	%	Amount	%	Amount	%	Amount
Community Admission Bodies						
Amicus Horizon (1066 Housing) Amicus Horizon (Rother Homes)	17.5%	203,000	17.5%	211,000	17.5%	228,000
Brighton Dome & Festival	24.1%	2,500	24.1%	3,000	24.1%	3,000
Care Quality Commission	20.7%		20.7%		20.8%	
De La Warr Pavilion Charitable Trust	18.7%		19.8%		20.9%	
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.9%		22.9%		22.9%	
Hastings Business Operations Limited (HBOL)	15.8%		15.8%		15.8%	
Hove & Portslade CAB	21.5%		21.5%		21.5%	
Sussex County Sports Partnership	15.8%		15.8%		15.8%	
Sussex Housing & Care	19.3%		19.7%		20.0%	
University of Sussex	24.0%	41,000	24.0%	85,000	24.0%	136,000
Transferee Admission Bodies						
Churchill Contract Services Ltd						
Convex Leisure	18.7%		22.3%	1,100	22.3%	5,500
Eastbourne Leisure Trust (Serco)	10.5%		12.0%		13.5%	
Eden Foodservices (Initial)	22.4%		22.4%		22.4%	
European Electronique LTD	21.4%		21.4%		21.4%	
John O'Conner Ltd	24.4%		24.4%		24.4%	
May Gurney Ltd	19.5%		20.2%		20.9%	
Mears Ltd	20.6%		20.6%		20.6%	
MyTime Active Ltd	18.0%		18.0%		18.0%	
Quadron Services Ltd	23.8%		23.8%		23.8%	
Sussex Archaelogical Society	21.5%	23,971	21.5%	25,122	21.5%	26,328
Wave Leisure Trust Ltd	14.4%		15.0%		15.6%	
Wealden and Eastbourne Lifeline (WEL)	17.2%		17.8%		18.4%	
Wealden Leisure Ltd	14.9%		15.8%		16.8%	1,200
Wealden Leisure Ltd (trading as Freedom Leisure)	16.6%		16.6%		16.6%	
White Rock Theatre	20.8%	1,676	20.8%	1,760	20.8%	1,848
Town and Parish Councils (pool)						
Battle Town Council	18.9%		19.3%		19.6%	
Camber Parish Council	18.9%		19.3%		19.6%	
Chailey Parish Council	18.9%		19.3%		19.6%	
Chiddingly Parish Council	18.9%		19.3%		19.6%	
Conservators of Ashdown Forest	18.9%		19.3%		19.6%	
Crowborough Parish Council	18.9%		19.3%		19.6%	
East & West Sussex Valuation Tribunal	18.9%		19.3%		19.6%	
Ewhurst Parish Council	18.9%		19.3%		19.6%	
Forest Row Parish Council	18.9%		19.3%		19.6%	
Hailsham Town Council	18.9%		19.3%		19.6%	
Heathfield & Waldron Parish Council	18.9%		19.3%		19.6%	
Hurst Green Parish Council	18.9%		19.3%		19.6%	
Lewes Town Council	18.9%		19.3%		19.6%	
Maresfield Parish Council	18.9%		19.3%		19.6%	
Newhaven Town Council	18.9%		19.3%		19.6%	
Peacehaven Town Council	18.9%		19.3%		19.6%	
Polegate Town Council	18.9%		19.3%		19.6%	
Ringmer Parish Council	18.9%		19.3%		19.6%	
Rye Town Council	18.9%		19.3%		19.6%	
Seaford Town Council	18.9%		19.3%		19.6%	

Sussex Inshore Fisheries & Conservation Authority	18.9%		19.3%		19.6%	
Telscombe Town Council	18.9%		19.3%		19.6%	
Uckfield Town Council	18.9%		19.3%		19.6%	
Willingdon & Jevington Parish Council	18.9%		19.3%		19.6%	
Colleges						
Bexhill College	15.8%		16.2%		16.5%	
Brighton, Hove & Sussex Sixth Form College	15.8%		16.2%		16.5%	
City College, Brighton	17.1%		17.5%		17.8%	
Plumpton College	15.8%		16.2%		16.5%	
Sussex Coast College	16.3%		16.7%		17.0%	
Sussex Downs College	14.8%		15.2%		15.5%	
Varndean Sixth Form College	15.8%		16.2%		16.5%	
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.3%		17.7%		18.0%	
East Sussex County Council	18.4%		18.8%		19.1%	
East Sussex Fire & Rescue Service	18.4%		18.4%		18.4%	
Eastbourne Borough Council	21.5%		21.9%		22.2%	
Hastings Borough Council	21.1%		21.5%		21.8%	
Lewes District Council	19.8%		20.2%		20.5%	
Rother District Council	23.0%		23.4%		23.7%	
University of Brighton	16.0%		16.4%		16.7%	
Wealden District Council	17.5%	369,000	17.5%	411,000	17.5%	473,000
Scheduled Bodies - Academies						
Beacon Academy			19.8%		20.1%	
Brighton Aldridge Community Academy	17.4%		17.4%		17.4%	
Eastbourne Academy	18.9%		18.9%		18.9%	
Hastings Academies Trust	18.1%		18.1%		18.1%	
Portslade Aldridge Community Academy	17.8%		17.8%		17.8%	
Ringmer Academy	18.3%		18.3%		18.3%	
Other Scheduled Bodies						
Eastbourne Homes Ltd	17.0%		17.0%		17.0%	
Surrey & Sussex Probation Board	20.0%		20.0%		20.1%	

28. Investment Performance

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 84 other local authority pension funds. Pension Fund investment is a long term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**1.8**	**13.6**	**3.1**	**5.8**
Benchmark	**1.4**	**14.4**	**2.8**	**5.8**
Relative	**0.4**	**-0.8**	**0.3**	**0.0**

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**1.8**	**13.6**	**3.1**	**5.8**
Local Authority Average	**2.6**	**14.5**	**3.2**	**5.7**
Relative	**-0.8**	**-0.9**	**-0.1**	**0.1**

The Fund underperformed the average local authority fund over the year by 0.8%, ranking the East Sussex Fund in the 77th percentile.
Over three years the fund underperformed by 0.9% and was placed 76th in the universe. For the longer-term periods of 5 and 10 years the Fund has performed broadly in line with the average local authority fund and was ranked at 48th and 33rd percentile respectively.

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.

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.

Budget

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

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.

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.

Carbon Reduction Commitment (CRC)

The CRC is a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations. The scheme features a range of reputational, behavioural, and financial drivers, which aim to encourage organisations to develop energy management strategies that promote a better understanding of energy usage.

Cash Equivalents

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 Comprehensive Income and Expenditure Statement 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 Movement in Reserve Statement.

Community Assets

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

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 Council, 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 Council 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 Comprehensive Income and Expenditure Statement, 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, but is actually a defined benefits 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, agriculture, fisheries, and rural communities in the United Kingdom.

Depreciation

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

External Auditors

The auditor (PKF (UK) LLP) appointed by the Audit Commission to carry out an audit of the Council's accounts. The auditor has statutory responsibilities to ensure that:

- The Council's accounts are prepared in compliance with applicable statutory provisions;
- The Council has complied with the Service Reporting Code of Practice for Local Authorities (SeRCOP).
- 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.

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 Accepted 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.

Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council are the collections of assets and artefacts either exhibited or stored in the local authority museum.

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 actually only covers licences for the use of computer software.

Interest Cost - Pension

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.

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 Comprehensive Income and Expenditure Statement, 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 75 of the National Health Services Act 2006, 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 material errors. 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, plant, 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, and for which the amount or dates on which they will arise can be reliably measured.

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.

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.

Service Reporting Code of Practice for Local Authorities (SeRCOP).

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. SeRCOP provides guidance/support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. SeRCOP particularly aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders.

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 Comprehensive Income and Expenditure Statement, 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.

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 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.