Agenda Item 5

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

Date: **6 September 2013**

By: **Chief Operating Officer**

Title of report: **Review of Annual Governance Reports and Statement of Accounts for 2012-13**

Purpose of report: **For the Committee to review the Independent Auditor's (BDO & KPMG) reports to those charged with governance prior to its submission to the Governance Committee on 10 September 2013.**

RECOMMENDATIONS: The Committee is asked to:

(i) note the reports and its appendices; and

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

---

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 (BDO) report to those charged with governance and the Council's Statement of Accounts for 2012/13, along with the covering report under which they will be taken to Governance Committee for approval on 10 September 2013, are set out in Appendix 1.

2.5 The final audit of the 2012/13 Statement of Accounts by our independent auditor (BDO) 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 Auditor has made recommendations, which have been discussed and responses included in the action plan where appropriate.

2.7 Following consultation with the Council, the Audit Commission appointed KPMG as the new Council's Independent Auditor's to carry out the Council's value for money audit in 2012/13 and full statement accounts audit commencing from 2013/14. The Auditor's (KPMG) has carried out the review of the arrangements made by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money), and the auditors (KPMG) did not feel it necessary to report on any particular points on value for money issues as set out in Appendix 2.

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

a. unwinding of the discount on the closed landfill sites provision
b. opening balances restatement within the Movement in Reserves Statement
c. Amendment the Amounts reported for resource allocation decisions note
d. Amendment of the Property, Plant and Equipment disclosure note.
e. Amendment to financial instruments in the financial instruments note.

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

- The findings made by the external auditors as a result of their audit of the 2012/13 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 2012/13 on 10 September 2013.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Ola Owolabi - Head of Accounts and Pensions
Tel: 01273 482017

Local Members: All

Background Documents
None

Report to: **Governance Committee**

Date: **10 September 2013**

By: **Chief Operating Officer**

Title of report: **Independent Auditor's (BDO and KPMG) Annual Governance Reports and Statement of Accounts 2012/13**

Purpose of report: **To present the Annual Governance Report, and to report an expected unqualified opinion on the 2012/13 Statement of Accounts**

RECOMMENDATIONS: To

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

(2) Note the Independent Auditor's (KPMG) Value for Money conclusion report;

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

(4) Authorise the Acting Chief Finance Officer to sign the formal Letter of Representation to BDO LLP; and

(5) Approve the Statement of Accounts for publication.

---

1. Financial Appraisal

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

2. Annual Governance Report

2.1 BDO LLP is obliged to produce an Annual Governance Report for both the East Sussex County Council Accounts and Pension Fund Accounts (Appendix 1 and 3), which formally reports on the outcome of the audit of the financial statements,

2.2 Following consultation with the Council, the Audit Commission appointed KPMG as the new Council's Independent Auditor's to carry out the Council's value of money audit in 2012/13 and full statement accounts audit commencing from 2013/14.

2.3 The auditor report 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.

2.4 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 Acting Chief Finance Officer on 28 June 2013 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 on page 12 to 13 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 new Auditor's (KPMG) carried out the review of the arrangements made by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money), and the auditors (KPMG) did not feel it necessary to report on any particular points on value for money issues (Appendix 2).

3.5 The revised set of accounts reflecting all adjustment described above is attached as Appendix 5.

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 on page 9 of the report to those charged with governance.

5 Publication of Statement of Accounts

5.1 The legal deadline for publishing the 2012/13 accounts is the end of September 2013. Once the auditors have completed their work, a Letter of Representation (Appendix 4 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.

KEVIN FOSTER –
Chief Operating Officer

Contact Officer: Ola Owolabi – Head of Accounts and Pensions,
Tel: 01273 482017.

Local Members: All

Background Documents

None

EAST SUSSEX COUNTY COUNCIL

FINAL REPORT TO THE AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE AND THE GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2013

BDO

CONTENTS

OVERVIEW

Key audit findings

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of East Sussex County Council for the year ended 31 March 2013. A separate report has been issued in respect of the audit of the pension fund financial statements contained within the Council's Statement of Accounts. This overview covers those matters we believe to be significant in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have largely completed our audit work and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

Following the merger of PKF (UK) LLP with BDO LLP in March 2013, it was considered that there would be a potential self-review threat to our independence and objectivity if we were to carry out the use of resources audit of the Council, as BDO LLP had previously carried out procurement consultancy work for the Council. The use of resources audit for the year ended 31 March 2013 has therefore been carried out by KPMG, who will separately report the findings from their work and their proposed value for money conclusion.

AREA OF AUDIT	SUMMARY
Financial statements	No material misstatements were identified as a result of our audit work. Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will provide an update to the Audit, Best Value and Community Services Scrutiny Committee. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2013.
Unadjusted audit differences	There are a small number of unadjusted audit differences identified by our audit work that are detailed in Appendix II. The net effect of adjusting for these differences would be to reduce the deficit for the year, increase the general fund balance and increase net assets by £2.63 million.
Internal controls	We believe that there is a significant deficiency in internal controls in respect of journals as the Council does not require independent review or authorisation of journals below £1 million and no authorisation is required for treasury management and capital finance entries that are in excess of £1 million. We have raised this same issue in previous years. Good practice would be to require independent authorisation of all manual journals created and posted to the SAP nominal ledger. We have also noted the following areas where we identified instances of non-compliance with the Council's internal controls: • authorisation of staff overtime and expense claims • segregation of duties for income invoicing and receipting functions. A number of other areas for improvement were identified which we have discussed with management.
Annual Governance Statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	We have not yet received the Council's WGA return. The findings from our review of the consistency of this return with the audited financial statements will be circulated to members of the Audit, Best Value and Community Services Scrutiny Committee before the 4th October 2013 submission deadline.

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

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have largely completed our audit work in respect of the financial statements, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit, Best Value and Community Services Scrutiny Committee meeting on 6 September 2013 and the Governance Committee meeting on 10 September 2013.

- completion of our audit of Property, Plant and Equipment
- completion of our audit of PFI scheme liabilities
- additional sample testing on adult social care creditor accruals
- additional sample testing on income in advance
- completion of our sample testing of income and expenditure, including grant income
- audit of the cash flow statement
- completion of our audit of a few disclosure notes
- receipt of amended final financial statements following agreed amendments
- technical clearance and engagement quality control reviewer sign off
- subsequent events review
- management representation letter, as attached in Appendix VIII to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements	5 September 2013
Audit, Best Value and Community Services Scrutiny Committee meeting	6 September 2013
Governance Committee meeting	10 September 2013
Signing of financial statements (subject to completion of WGA review)	10 September 2013
Completion of audit work on the WGA return and circulation of audit findings	30 September 0213
Signing of WGA audit certificate	4 October 2013

INDEPENDENCE

INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 March 2013.

A summary of our fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors of the financial statements and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

Following the merger of PKF (UK) LLP with BDO LLP in March 2013, it was considered that there would be a threat to our independence and objectivity if we were to carry out the use of resources audit of the Council, as BDO LLP had previously carried out procurement consultancy work for the Council. The use of resources audit for the year ended 31 March 2013 has therefore been carried out by a separate firm, KPMG.

	£
Code Audit fee	112,479
Less: fee for use of resources audit transferred to KPMG	(8,734)
Grants certification fees (estimate)	6,350
Fees for non-audit services	-
TOTAL FEES	**110,095**

AUDIT SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers:

- audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the state of the Council's affairs as at 31 March2013 and of the income and expenditure for the year then ended	**2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation	**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting	**4** The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements
5 The Annual Governance Statement is not inconsistent with our knowledge and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE)	**6** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness	**7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared	

As reported above, the use of resources audit (point 6 in the table) has been carried out separately by KPMG for the year ended 31 March 2013.

FINANCIAL STATEMENTS

Key audit and accounting matters

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 properly prepared, 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.

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 or actual misstatements.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £260,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

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 only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V. These recommendations have been discussed with appropriate officers and their responses are included.

17

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	We did not identify any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION - ADULT SOCIAL CARE INCOME	For income in relation to residential and domiciliary home care, an assessment is completed for each person who requires a place in a care home and client contributions are assessed. Remittances are automatically produced from the system (Controcc) based on the assessments completed and are sent to the client. There is an automatic interface between Controcc and the SAP general ledger system and monthly reconciliations are completed between the two systems to ensure that all contributions received through Controcc are recorded in the general ledger.	We substantively tested an extended sample of adult social care income to ensure that accounting policies had been correctly applied in determining the point of recognition of income and that income was completely and accurately recorded.	No issues have been identified from our testing of social care income.

AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
REVENUE RECOGNITION - GRANT INCOME	For grant income, the finance team reviews agreements and other documentation from the grant paying body to determi ne whether there are conditions attached to the grant. Expenditure incurred in respect of specific grants is coded to separate cost centres in the nominal ledger and this is reviewed by the finance team to determine whether grant conditions have been met and therefore the required accounting treatment.	We substantively tested an extended sample of grant income to ensure that accounting policies had been correctly applied in determining the point of recognition of income and that income was completely and accurately recorded.	We have not yet completed our testing of grant income, however no issues have been identified from our income testing to date.
ACCOUNTING FOR RESTORATION OF LANDFILL SITES COSTS	The Council has produced a model of all the closed landfill sites that it is currently restoring, which records current and future estimated aftercare costs, expected period of restoration and a discount factor to calculate the provision balance and expenditure charges. Early discussions were held with us to agree the approach being taken.	We have reviewed all of the accounting entries for the recognition of the costs for decommissioning landfill sites and the estimates and assumptions used in calculating these costs over future years.	The Council has 19 closed landfill sites that require restoration and after care and has recognised a provision for future costs as there is a legal obligation to manage these sites under environmental regulations. The balances of the long and short provision at 31 March 2013 are £9.706 million and £412,000 respectively, and comparatives have been restated accordingly by way of a prior period adjustment. From 2012/13 the annual cash payments on restoration and after care are debited to the provision, rather than treated as expenditure for the year as previously done, and the discount on the provision is being unwound as a charge to interest payable. The impact on the general fund is neutral as the Council has charged the general fund with a minimum revenue provision (through the Movement in Reserves Statement) that ensures that the net effect is that only the cash payment has been charged to the general fund. The comparative figures in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement for 2011/12 have not been restated as the total cash payment in that year was only £374,000 and therefore the impact on these Statements was not considered to be significant. We are satisfied that the assumptions applied by management for future estimated costs, the aftercare period and the discount rate for the provision are not unreasonable.

AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
ADULT SOCIAL CARE COSTS & ACCRUALS	A schedule of estimated amounts to be paid for specific individuals is maintained. This is based on contract commitments for care services provided in the year, as recorded in Controcc, and a factoring rate is applied as individuals do not generally consume 100 per cent of their commissioned provision. This is compared to actual payments made in calculating the year end accrual. The calculation is reviewed by management.	We have compared the year end accrual to payments made post year end and we have assessed the robustness of management's estimation techniques by reviewing the reasonableness of estimates made in the prior year against actual outturn for the prior year.	As a result of issues raised in the prior year audit, the Council has significantly improved its procedures for calculating the adult social care accrual for residential care costs this year. A review of payments made in 2012/13 against the prior year accrual of £12.118 million (at 31 March 2012) indicates that it was overstated by £6.498 million. Management took the prior year overstatement into account when estimating the current year accrual and set a lower accrual, of £8.778 million, at 31 March 2013. This is based on management's best estimate of expected payments at the time of closing down the accounts. As at the end of July 2013, £5.862 million has been paid against the 31 March 2013 accrual. Management has now estimated the value of further payments to be made against the accrual by reviewing the payment profile in the current year against the prior year accrual and applying a similar trend. This latest information indicates that the 31 March 2013 accrual is potentially overstated by £1.833 million. We acknowledge the inherent difficulties in estimating accruals in this area and recognise the improvements that management has made in its estimation techniques this year. The overstatement in both the current year and the prior year has been recorded in the schedule of unadjusted audit differences at Appendix II.
TERMINATION COSTS	Personnel staff maintain a spreadsheet of termination payments showing the division between voluntary redundancy, voluntary early retirement and compulsory redundancy. The spreadsheet is updated when redundancies arise. The spreadsheet is used by Finance to determine redundancy costs to be accounted for within the financial statements and this is reconciled to redundancy payments made through the payroll.	Audit procedures have been carried out to identify in-year redundancies and any agreed and proposed redundancies in order to assess whether terminations had been correctly and completely accrued or provided for, and adequately disclosed in the Exit Packages note to the financial statements.	No issues were identified through our testing.

The Municipal Mutual Insurance (MMI) scheme arrangement was reported as a significant risk in our Audit Plan presented to the Audit, Best Value and Community Services Scrutiny Committee in March 2013. However during our planning we established that the MMI provision is not material to the financial statements and therefore it is no longer considered to be a significant risk to the financial statements.

Accounting Practices and Financial Reporting Framework

Financial statements preparation process

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 2012/13 financial statements were signed and presented for audit on 28 June 2013.

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 15 July 2013, in line with the agreed timetable. Further working papers in response to queries were obtained during the course of the audit.

Audit issues and impact on opinion

Prior period adjustments

Under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and CIPFA's Code *Guidance notes for practitioners*, prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting policies should only be made when required by proper accounting practices or where the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the financial position or financial performance. Material errors discovered in prior period figures should be corrected retrospectively by amending opening balances and comparative amounts for the prior period.

In 2012/13 the Council has restated its comparatives by way of prior period adjustments for the following:

- to recognise a provision for decommissioning costs of closed landfill sites (as reported in the significant risks section above)
- to reclassify balances receivable from West Sussex County Council in respect of concessionary fares from 'bank overdraft and accrued balance for third parties' (where it was previously netted off current liabilities) to short term debtors; this issue was reported as an uncorrected misstatement in our prior year report
- a correction to PFI liabilities and the capital adjustment account due to a review and update of the Schools PFI model
- a correction for revaluation reserve and capital adjustment account balances in relation to revaluation losses on assets that had previously been incorrectly charged to the Comprehensive Income and Expenditure Statement.

The restatement for the closed landfill sites provision is appropriate as it relates to a change in accounting policy.

The other restatements do not relate to changes in accounting policies and are not material errors, therefore did not need to be corrected retrospectively. However, as these adjustments are not material, the approach is considered acceptable.

Accounting policies	Audit issues and impact on opinion
The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice: • objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework) • encouraging local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FReM) • amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).	We have no matters to report in relation to the changes introduced by the 2012/13 Code, although we have the following issue to report in relation to the Council's application of accounting policies: **Cash and cash equivalents** The Council has departed from standard accounting policies in its classification of cash and cash equivalents and short term investments; an issue which we have previously reported. The Code defines cash and cash equivalents as short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. However, in the current year and prior year the Council has classified its deposit call account with its own banker as a short term investment, rather than cash and cash equivalents, and the RBS Money Market Fund as cash and cash equivalents. 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. In addition, the 'Critical judgements in applying accounting policies' note further explains which of its call accounts and money market funds were held for cash flow requirement purposes at 31 March 2013 and that these accounts change dependent on the relevant movements in money market conditions and the Council's Treasury Management Strategy.

Accounting estimates	Audit issues and impact on opinion
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 at which these are recognised. We consider the following to be material accounting estimates with high estimation uncertainty: • valuation of property (continued)	**Valuation of property** 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. 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. 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.

Accounting estimates (continued)	Audit issues and impact on opinion
• estimated pension liability	**Estimated pension liability** 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. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed 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. 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 generally not significantly different from those being applied by the actuaries of other local authorities.
• landfill sites provision	**Landfill sites provision** The provision required for landfill sites decommissioning costs was identified as a significant risk. The results of our review of the assumptions used in calculating the provision have been reported within the audit risks section above.
• adult social care accruals.	**Adult Social Care accruals** The adult social care accrual for residential care costs was identified as a significant risk. The results of our review of the estimated accrual have been reported within the audit risks section above.

<table>
<tr><th>Disclosures</th><th>Audit issues and impact on opinion</th></tr>
<tr><td>We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.</td><td>The following presentational and disclosure amendments have been made to the draft financial statements as a result of the audit:
• inclusion of comments on the future adoption of IFRS 13 Fair value measurement in the ‘Accounting standards that have been issued but have not yet been adopted’ note
• inclusion of a Prior Period Adjustments note, a restated Balance Sheet at 1 April 2011 and more comprehensive disclosures on the restatements made to comparative figures in the primary statements and supporting notes
• changes to the presentation of the cash and cash equivalents note to more clearly disclose the Council’s bank overdraft separately from bank balances held on behalf of third parties.</td></tr>
<tr><th>Misstatements</th><th>Audit issues and impact on opinion</th></tr>
<tr><td>We identified a number of departures from the expected presentation of the 2012/13 financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.</td><td>The following misstatements identified by the audit have been amended by management:
• separate disclosure of the unwinding of the discount on the closed landfill sites provision in the provisions note and restatement of the gross costs and accumulated depreciation of property, plant and equipment for closed landfill sites
• correction to the restated opening balances in the Movement in Reserves Statement
• reclassification of £1.318 million from long term borrowing to short term borrowing for a PWLB loan that is due for repayment in 2013/14 and corresponding amendments to the financial instruments note
• amendments to disclosures in the Property, Plant and Equipment note so as to correctly disclose the revaluation increases (reversal of previous losses) recognised in the deficit on the provision of services, and associated amendments to other parts of the note
• restatement of the comparatives in the financial instruments note to reflect the prior period adjustments made to the primary statements
• correction to a number of disclosures in the ‘Amounts reported for resource allocation decisions’ note so as to agree to the Comprehensive Income and Expenditure Statement and to the departmental outturn disclosed in the Foreword and finance reports to Cabinet
• a number of amendments to the amounts disclosed in the members’ allowances note
• correction to the numbers disclosed in the bandings for officers earning over £50,000 in the officers’ remuneration note and inclusion of child care vouchers in benefits in kind disclosed for a senior office.
• amendment to the external audit costs note so to reflect audit fee payable by correct accounting year
• corrections to the amounts disclosed for property, plant and equipment and government grants and contributions in the capital expenditure and capital financing note.</td></tr>
</table>

Unadjusted audit differences	Audit issues and impact on opinion
We are required to report to you unadjusted audit differences 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 auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II.	**Integrated community equipment costs accrual** Our prior year audit found that the Integrated Community Equipment service accrual was overstated by £584,000 at 31 March 2012. By correcting this issue in the current year, and reversing the accrual and crediting expenditure, the underlying deficit on provision of services in 2012/13 has been reduced by this amount. There is no continuing misstatement in the balances at 31 March 2013 and this impacts only on the reported performance for the year. **Adult Social Care accrual for residential care costs** As reported above, the prior year accrual was overstated by £6.498 million and the current year accrual is overstated by £1.833 million. **Learning disability residential accommodation costs accrual** The Council has a creditor accrual of £797,000 at 31 March 2013 for development of learning disability services. There is no specific constructive obligation attributable to this accrual at this stage, indicating an overstatement of expenditure and creditors of £797,000. We have requested that the Council carries out a detailed review of all creditor accruals to determine whether there are any other misstatements. We will then extend our sample testing to review the results of that work. We will revise our schedule of uncorrected misstatements and update the Committee if this identifies any further misstatements. **Income in advance** Our testing of a sample of income in advance balances identified one item of £1 million that was included in income in advance at 31 March 2013 as it relates to the next financial year, although it was not received until after year end. This item has also been included in debtors although it does not represent a receivable for the current year. As a result, income in advance and debtors are overstated in the Balance Sheet. We have requested that the Council carries out a detailed review of all income in advance balances to determine whether there are any other similar grossing up misstatements. We will then extend our sample testing to review the results of that work. We will revise our schedule of uncorrected misstatements and update the Committee if this identifies any further misstatements. **Overall impact** The impact of correcting these items would reduce the reported deficit for the year and increase the general fund (and reserves) by £2.630 million.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
AUTHORISATION OF JOURNALS	We have previously reported that the Council does not require independent review or authorisation of journals below £1 million and no authorisation is required for treasury management and capital finance entries that are in excess of £1 million. The £1 million threshold was considered by management in the prior year 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. It should be noted that despite there being scope for improvement in the control environment in this area, our further substantive testing of a sample of journals in the final accounts audit did not identify any issues which would bring the validity and appropriateness of journal entries into doubt.	We believe that this issue exposes the Council to a risk of journals being incorrectly or inaccurately processed which, ultimately, would result in the financial statements being misstated. Furthermore, the risk of misappropriation of Council assets is increased if journals are not being properly authorised and validated.	We have not repeated the recommendation that we raised in 2010/11 as management believes that the Council's policy on journals authorisation is appropriate.	Not applicable.
AUTHORISATION OF STAFF OVERTIME AND EXPENSES	Line managers are required to physically sign overtime and expense claim forms. However there are no authorised signatory lists in place at South East Shared Services to enable them to check the authorisations for all claims received. A mitigating control was implemented in 2011/12 whereby 50 claims are selected each month by South East Shared Services and relevant line managers are asked to confirm that they had authorised the claim. Internal Audit's testing of controls in this area has found a number of instances of non-compliance. Internal Audit is in the process of finalising its report with management.	Overtime and staff expenses are not material to the financial statements. However, weaknesses in controls increase the risk of inappropriately authorised employee overtime and expense claims being undetected, thus putting the Council at risk of incurring fraudulent expenditure.	Management should ensure that Internal Audit's recommendations regarding controls over overtime and expense claims are addressed.	See action plan in Appendix V.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
SEGREGATION OF DUTIES IN INVOICING AND CASH RECEIPTING	Internal Audit noted that several staff employed by South East Shared Services are assigned both invoicing and receipting roles, although there is no evidence of the same individual having carried out both functions in the year.	The risk of misappropriation is increased if an individual is able to raise invoices and record receipts.	Management should ensure that Internal Audit's recommendations regarding review of the SAP permissions for invoicing and cash receipting functions are addressed to ensure that there is appropriate segregation of duties.	See action plan in Appendix V.

Matters required to be reported by other auditing standards

Whole of Government Accounts	Audit issues and impact on opinion
We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	We have not yet received the Council's WGA return. The findings from our review of the consistency of the return with the audited financial statements will be circulated to members of the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee before the 4th October 2013 deadline.

Annual Governance Statement	Audit issues and impact on opinion
We have reviewed the draft 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, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	East Sussex County Council
Management	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
Those charged with governance	The person(s) with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
CIES	Comprehensive Income and Expenditure Statement
SeRCoP	Service Reporting Code of Practice for Local Authorities 2012/13
WGA	Whole of Government Accounts

APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee are required to consider. A schedule of such adjustments is included below and, with the exception of the errors that relate to prior year misstatements, we request that you correct them. Identified misstatements for the current year should, where practicable, be corrected even if not material.

There are three unadjusted audit differences identified by our audit work for the current year, which would increase the draft deficit on the CIES and net assets by £2.630 million. Management considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

		CURRENT YEAR		*PRIOR YEAR*		
	CIES (OVER) / UNDER	*INCOME (OVER) / UNDER*	*EXPENSES (OVER) / UNDER*	*INCOME (OVER) / (UNDER*	*EXPENSES (OVER) / UNDER*	**NET ASSETS OR RESERVES OVER / (UNDER)**
UNADJUSTED AUDIT DIFFERENCES	**£'000**	*£'000*	*£'000*	*£'000*	*£'000*	**£'000**
Deficit for the year before adjustments	**74,570**					**343,627**
Impact of prior year misstatements (no adjustment required in 2012/13)						
(1) Overstatement of estimated creditor accruals and expenditure on the Integrated Community Equipment Service pooled budget at 31 March 2012:						
Dr Gross expenditure - Adult social care			*584*			
Cr Opening general fund					*(584)*	
Misstatements identified in the current year						
(2) Potential overstatement of the estimated adult social care accrual for residential care costs:						
Misstatement at 31 March 2013:						
Dr Creditors						**1,833**
Cr Gross expenditure - Adult social care	**(1,833)**		*(1,833)*			
Misstatement at 31 March 2012 (no adjustment required in 2012/13):						
Dr Gross expenditure - Adult social care			*6,498*			
Cr Opening general fund					*(6,498)*	

UNADJUSTED AUDIT DIFFERENCES	CIES (OVER) / UNDER £'000	CURRENT YEAR INCOME (OVER) / UNDER £'000	CURRENT YEAR EXPENSES (OVER) / UNDER £'000	PRIOR YEAR INCOME (OVER) / (UNDER £'000	PRIOR YEAR EXPENSES (OVER) / UNDER £'000	NET ASSETS OR RESERVES OVER / (UNDER) £'000
(3) Overstatement of the accrual for development of the learning disability service. Actual misstatement identified:						
Dr Creditors						797
Cr Gross expenditure - Adult social care	(797)		*(797)*			
(4) Overstatement of income in advance and debtors:						
Dr Income in advance						1,000
Cr Debtors						(1,000)
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(2,630)**		*4,452*		*(7,082)*	**2,630**
Deficit for the year and net assets if adjustments accounted for	**71,940**					**346,257**

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matter was noted:

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. Likewise, capital information is presented in accordance with the capital programme format, which differs from the financial statements. The 'Amounts reported for resource allocation decisions' note in the financial statements provides a reconciliation of income and expenditure. There is no equivalent reconciliation in the financial statements for capital. It would be preferable if the Council included reconciliations in the Foreword for income and expenditure and capital.

APPENDIX III: MATERIALITY

MATERIALITY	
Planning materiality	£8,800,000
Final materiality	£8,800,000
Clearly trivial threshold	£260,000

Planning materiality of £8.8 million for the Council was based on 1% of gross expenditure, excluding losses on disposal of property plant and equipment which relates mainly to the de-recognition of academies in the year. The figure was based on the full year outturn per the draft financial statements and we have no reason to revise this figure for our final materiality level.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Audit engagement partner	3	N/A
TIM DREW - Engagement quality control reviewer	4	N/A
JANINE COMBRINCK – Director	4	N/A
LIANA HINE – Audit manager	1	N/A

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the 2012/13 financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: ACTION PLAN

FINANCIAL STATEMENT RECOMMENDATIONS

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
No recommendations regarding the financial statements.				

INTERNAL CONTROL RECOMMENDATIONS

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Overtime and expense claims Internal Audit's testing of controls over overtime and expense claims found a number of instances of non-compliance. Internal Audit is in the process of finalising its report with management. Weaknesses in controls in this area increase the risk of inappropriately authorised employee overtime and expense claims being undetected, thus putting the Council at risk of incurring fraudulent expenditure.	Management should ensure that Internal Audit's recommendations regarding controls over overtime and expense claims are addressed.	Awaiting finalisation of Internal Audit Report.		
Segregation of duties in the invoicing and cash receipting function Internal Audit noted that several staff employed by South East Shared Services are assigned both invoicing and cash receipting roles, although there is no evidence of the same individual having carried out both functions in the year. The risk of misappropriation is increased if an individual is able to raise invoices and record receipts.	Management should ensure that Internal Audit's recommendations regarding review of the SAP permissions for invoicing and cash receipting functions are addressed to ensure that there is appropriate segregation of duties.	Agreed. This will be looked at in conjunction with the Internal Audit report recommendations and to find the best solution that will ensure effective arrangements with regard to segregation of duties.	Janyce Danielczyk	Immediately

35

APPENDIX VI: FEES SCHEDULE

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 £110,095 (original planned fee of £118,829 less £8,734 to be transferred to KMPG for the use of resources work) eth management, before we report the final fee outturn.

APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	6 September and 10 September 2013	Management and those charged with governance	Report to Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✔	✔	✔
The final draft of the representation letter	✔	✔	✔
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control	✔	✔	✔
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✔	✔	✔
Other information in documents containing audited financial information	✔	✔	✔
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

37

APPENDIX VIII: DRAFT REPRESENTATION LETTER

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 Acting 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.

BDO LLP
55 Baker Street
London
W1U 7EU

10 September 2013

Dear Sirs

Financial statements of East Sussex County Council for the year ended 31 March 2013

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 2013 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 officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for financial statements

I acknowledge as the Acting Chief Finance Officer 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 and have been prepared in accordance with the requirements of applicable law.

Significant assumptions

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

(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 (RPI)	2.8%
• Rate of increase in salaries	5.1%
• Rate of increase in pensions	2.8%
• Expected return on assets	4.5%
• Rate for discounting scheme liabilities	4.5%
• Take up option to convert the annual pension into retirement grant - pre 31 March 2008	50%
• Take up option to convert the annual pension into retirement grant - post April 2008	75%

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 2013, 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 2013, and is therefore correctly defined as a cash equivalent, and that all other cash deposits are not held for that purpose and are therefore defined as investments in accordance with the Council's accounting policies.

Accounting policies

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

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

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

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 restatement for closed landfill sites provision, the adjustment relates to a change in accounting policy as I believe that the new accounting policy is 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 policy.

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 control 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 laws 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, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

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

Title to assets

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

Contractual agreements

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

Yours faithfully

Mo Hemsley
Acting Chief Finance officer

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 Acting Chief Finance Officer 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 Acting Chief Finance Officer 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 Keith Glazier
Leader of the Council and Chair of the Governance Committee

For and on behalf of East Sussex County Council

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

EAST SUSSEX PENSION FUND

FINAL REPORT TO THE AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE AND THE GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2013

CONTENTS

OVERVIEW

Key audit findings

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of East Sussex Pension Fund for the year ended 31 March 2013. A separate report has been issued in respect of the audit of the Council's financial statements.

This overview covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have substantially completed our audit work in respect of the financial statements and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

AREA OF AUDIT	SUMMARY
Financial statements	No material misstatements were identified as a result of our audit work. Some material disclosure adjustments were identified, all of which have been amended in the revised financial statements. Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will provide an update to the Audit, Best Value and Community Services Scrutiny Committee. During our audit we identified that the Pension Administration System used for the Pension Fund changed from AXISe to Altair on 26 February 2013. We were not notified of this change and this was only identified through our on-site visit to the service organisation (South East Shared Services). Additional review and testing was required around the change over of this system to satisfy ourselves that the in year transactions and year end balances produced by the Altair system were correct. No issues were identified from our review. 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 2013.
Unadjusted audit differences	There are two remaining unadjusted audit difference identified by our audit work which would increase the fund account surplus and closing net assets of the scheme by £3.5 million.
Internal controls	We believe that there is a significant deficiency in the design of the internal controls in respect of journals as the Council does not require independent review or authorisation of journals below £1 million. We have raised this same issue in previous years. Good practice would be to require independent authorisation of all manual journals created and posted to the SAP nominal ledger. A number of other areas for improvement were identified which we have discussed with management.
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 pension fund within the 19-day remittance due date.
Pension fund annual report	We have recently received the draft pension fund annual report and will be reviewing this shortly for compliance with reporting requirements and consistency with the financial statements.

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

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit, Best Value and Community Services Scrutiny Committee meeting on 6 September 2013 and the Governance Committee meeting on 10 September 2013.

- receipt of amended final financial statements following agreed amendments, including changes to the investments analysis and financial instruments disclosures
- technical clearance and engagement quality reviewer sign off
- subsequent events review
- management representation letter, as attached in Appendix VIII to be approved and signed
- review of the pension fund annual report and compliance with reporting guidance.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements and Annual Report	5 September 2013
Audit, Best Value and Community Services Scrutiny Committee meeting	6 September 2013
Governance Committee meeting	10 September 2013
Signing of financial statements	10 September 2013

INDEPENDENCE

INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2013.

A summary of fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

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 2012/13, has remained valid throughout the period of the audit.

	£
Code audit fee	26,607
Fees for non-audit services	-
TOTAL FEES	**26,607**

AUDIT SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers:

- audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), Practice Note 15: audit of occupational pension schemes in the United Kingdom (January 2011) and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

1 The pension fund financial statements give a true and fair view of the financial transactions and amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the scheme year end, as at 31 March2013	**2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation	**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting	**4** The information given in the Annual Report is consistent with the financial statements and complies with set guidance

FINANCIAL STATEMENTS

Key audit and accounting matters

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 and whether they have been properly prepared properly, 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.

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 or actual misstatements.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £690,000 in relation to investment balances and £110,000 for all other balances to be trivial and have not reported them, unless the misstatement is indicative of fraud.

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 only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V. These recommendations have been discussed with appropriate officers and their responses are included.

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
MANAGEMENT OVERRIDE	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We responded to this risk by testing the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We reviewed accounting estimates for evidence of possible bias.	We did not identify any significant transactions that are outside the normal course of business for the pension fund or that otherwise appear to be unusual. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION IN RELATION TO INCOME FROM ADMITTED BODIES	Each employer completes a monthly LGPS31 form detailing gross contributions and pensionable pay. This information is checked for reasonableness through a spread sheet of anticipated contributions against the actual LGPS 31 contributions. Discrepancies are colour coded and action notes are recorded to evidence follow-up of any discrepancies. A check is also completed between the forms and a non-post report generated from the system. This identifies any people who have not made contributions per the forms and these are followed up accordingly.	We reviewed the LGPS 31 returns and assurance certificates received from employers and sample testing was completed agreeing items back to underlying evidence. We reviewed a sample of non-post reports to confirm that any people identified as having no contributions were followed up. We also reviewed the annual returns received from each admitted body and the reconciliation performed between the returns and the SAP general ledger to ensure that all contributions were captured.	We did not identify any issues from our testing and found no indication that the pension contributions received and recorded within the financial statements were incomplete.

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
FINANCIAL INSTRUMENT DISCLOSURES	Finance staff held early discussions with Northern Trust to ensure that the compilation of the Financial Instrument note was accurate and correctly disclosed. Staff also use the latest Local Government Pension Scheme Fund Accounts 2012/13: Example Accounts and Disclosure Checklist (2013). This provides details of the disclosures required in relation to pension fund accounts and will be analysed by management to determine the appropriate level and detail of disclosures.	We reviewed the disclosures against the CIPFA template accounts and also agreed each item to the report produced by Northern Trust.	We reviewed the financial instruments note and compared this to the note prepared by Northern Trust. Northern Trust has classified investment purchases and sales (investment assets and liabilities) for settlements to clear as fair value through profit and loss. We consider that it is arguable that these should be classified as loans and receivables although we accept that this classification may be appropriate as part of the overall investment portfolio.
ANNUAL REPORT COMPLIANCE WITH REGULATIONS	Finance staff completed early work on the content of the annual report to ensure that it complied with the guidance and worked closely with us to ensure that the items omitted from the prior year report were included.	We have recently received the draft pension fund annual report and will be reviewing this shortly for compliance with reporting requirements and consistency with the financial statements.	We will provide an update to the Audit, Best Value and Community Services Scrutiny Committee on 6 September 2013 and the Governance Committee on 10 September 2013.
VALUATION OF PRIVATE EQUITY AND INFRASTRUCTURE ASSETS	The accounting policy for valuation of private equity and infrastructure assets funds is to include these at fair value from periodic valuations provided by those controlling the limited partnership funds. The fund managers regularly provide the valuation figures to Northern Trust for inclusion in the financial statements. The fund managers apply appropriate industry valuation techniques to value such assets and confirm that this guidance has been used in valuing private equity and infrastructure assets. Reliance is also placed on independent assurance reports for each of the fund managers.	We reviewed the investment valuations for private equity and infrastructure funds through to underlying accounts of the limited partnership investment vehicles provided by the fund managers, which were made available for the preparation of the financial statements, and information regarding the pension fund's share of the holdings. We also reviewed cash transactions with these funds since the date of the valuation reports to ensure that all cash investments or withdrawals are reflected in the valuation at the pension fund balance sheet date. We also reviewed the AAF 01/06 or SAS 70 assurance reports for the relevant fund managers.	The valuations for these funds were agreed to information provided by the fund managers at 31 December 2012 and updated by Northern Trust for cash transactions and currency exchange at 31 March 2013. This is the most up to date information available for preparing the draft financial statements before 30 June. At the time of our audit, updated valuations to 31 March 2013 were available from the fund managers and these valuations were compared to those used within the financial statements. We noted that there were further investment gains of £3.3m from Harbourvest and Adams Street Fund Managers in the final quarter. Where more up to date information is available before the financial statements are approved for issue, these should be amended to reflect the revised valuations. We have included this issue below as an unadjusted audit difference.

Accounting Practices and Financial Reporting Framework

Financial statements preparation process	Audit issues and impact on opinion
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 28 June 2013. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 1 July 2013, in line with the agreed timetable.	We have no matters to report that impact on the financial statements. The comparative information for 31 March 2012 has been restated in the financial statements to reclassify working capital cash balances held by the fund for day to day transactions, which has correctly been recorded as current assets rather then investment balances. We reported on this issue in the previous year. It should be noted that a new Pension Administration System was implemented on 26 February 2013 called Altair. This replaced the AXISe system as part of a system upgrade under the contract held with Heywood to maintain the pension system. This involved a change in the IT system software used by the pension fund. We were not made aware of this change in system and we identified this only during an on-site visit to South East Shared Services during the audit. This resulted in additional testing on the migration of the data and the review of the controls in place for the new system and significantly delayed our audit.

Accounting policies	Audit issues and impact on opinion
The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice: • including amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).	The pension fund has adopted and applied in all material respects the accounting policies of the 2012/13 Code. We have no matters to report.

Accounting estimates	Audit issues and impact on opinion
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 at which these are recognised. We consider the following to be material accounting estimates with high estimation uncertainty: • fair value of unquoted private equity and infrastructure investments (continued)	**Fair value of unquoted private equity and infrastructure investments** As noted above, a number of investments are held in private equity and infrastructure funds where the fund manager regularly provides information on the value of the fund. The most up to date valuations available when preparing the financial statements was at 31 December 2012. Northern Trust updates the valuation for cash contributions and withdrawals from the funds up to 31 March 2013. Management rely on the expert valuation undertaken by the fund manager.

Accounting estimates (continued)	Audit issues and impact on opinion
	We have agreed the fund values in the financial statements through to underlying accounts provided by the fund managers at 31 December 2012 (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 2013. As the time of our audit the values as at 31 March 2013 were available from the fund managers and the values were compared to those used within the financial statements. We noted that there were further gains of £3.3m from Harbourvest and Adams Street Fund Managers. The financial statements should be amended to reflect the revised valuations up to the date that the financial statements are authorised for issue. We have included this unrecognised gain to 31 March 2013 as an unadjusted audit difference. 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.
• actuarial valuation of liability for future pension payments.	**Actuarial valuation of liability for future pension payments** Pension disclosures are required in line with IAS 26 (Accounting and reporting of retirement benefit plans). The information required for the disclosures is provided by the actuary (Hymans Robertson). The information provided is calculated using a number of estimates and assumptions. Management rely on the information provided by Hymans Robertson as experts in this field. We have agreed the disclosures included within the financial statements through to reports produced by the actuary. We have also reviewed a report produced by independent consulting actuaries, prepared on behalf of Audit Commission auditors, which reviews the assumptions and estimates used by each of the actuaries providing valuations for local authorities. We are satisfied that the actuary is suitably independent of the pension fund, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.

Disclosures	Audit issues and impact on opinion
We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.	All disclosures within the pension fund accounts are compliant with the requirements of the Code. Some amendments were required to some of the disclosures and these have been listed within 'misstatements' below.

Misstatements	Audit issues and impact on opinion
We identified a small number of departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.	The following misstatements identified by the audit have been amended by management: • unquoted oversees equities of £127 million were incorrectly classified as UK equities • UK non-government fixed interest securities of £157 million were incorrectly shown as public sector fixed interest securities • analysis of investment assets included not only investment assets, but also included all current assets and current liabilities • group pension transfers of £1.8 million relating to the Magistrates Court were incorrectly shown within individual transfers • unfunded teacher's pensions of £2.7 million were included under the heading 'pensions' within the benefits payable note when they should have been shown as commutation and other lump sum benefits • Additional Voluntary Contributions (AVCs) disclosure included with the draft Pension Fund financial statements had not been updated for 2012/13 due to the fact that Prudential was unable to provide the information required for this note.

Unadjusted audit differences	Audit issues and impact on opinion
We are required to report to you unadjusted audit differences 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 auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II.	**Fair value of unquoted private equity and infrastructure investments** As noted above, valuation gains on private equity and infrastructure asset funds to 31 March 2013, since the date of the previous valuation reports available to 31 December 2012, should now be included in the financial statements. **Contributions receivable income** Testing identified that contributions receivable relating to the following bodies for March 2013 had not been included within current assets as a receivable amount: • Varndean 6th Form College of £17,000 • Eastbourne Borough Council £212,000. Further testing was completed to ensure that there were no other receivable amounts missing and no further omissions were identified. As the combined total is £229,000, which is non-material but above the trivial amount set, this has been recorded as an unadjusted audit difference. **Overall impact** The impact of correcting these items would increase the fund account surplus and closing net assets of the scheme by £3.6 million.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the pension fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
AUTHORISATION OF JOURNALS	We have previously reported that the Council does not require independent review or authorisation of journals below £1 million. The £1 million threshold was considered by management in the prior year 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. It should be noted that despite there being scope for improvement in the control environment in this area, our further substantive testing of a sample of journals in the final accounts audit did not identify any issues which would bring the validity and appropriateness of journal entries into doubt.	We believe that this issue exposes the Council to a risk of journals being incorrectly or inaccurately processed which, ultimately, would result in the financial statements being misstated. Furthermore, the risk of misappropriation of Council assets is increased if journals are not being properly authorised and validated.	We have not repeated the recommendation that we raised in 2010/11 as management believes that the Council's policy on journals authorisation is appropriate.	Not applicable.

Matters required to be reported by other auditing standards

Annual report	Audit issues and impact on opinion
We are required to review the annual report to satisfy ourselves that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, and is in line with guidance set.	This review is currently underway. An update will be provided at the Audit, Best Value and Community Services Scrutiny Committee on 3 September 2013 and the Governance Committee on 10 September 2013.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	East Sussex County Council
Pension fund	The East Sussex Pension Fund, administered by East Sussex County Council
Management	The person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
'Those charged with governance'	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with Governance for the Pension Fund are the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13

APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee is required to consider. A schedule of such adjustments is included below and we request that you correct them. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

There are two unadjusted audit differences identified by our audit work which would increase the Pension Fund net assets by £277,292,000. Management considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

UNADJUSTED AUDIT DIFFERENCES	FUND ACCOUNT OVER / (UNDER)	CURRENT YEAR		PRIOR YEAR		NET ASSETS (OVER) / UNDER
		INCOME OVER/ (UNDER)	*EXPENSES (OVER)/UNDER*	*INCOME OVER / (UNDER)*	*EXPENSES (OVER)/UNDER*	
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	**£'000**
Fund account (surplus) / net assets before adjustments	**(273,806)**					**2,344,276**
Current year factual misstatements						
Understatement gains on private equity and infrastructure funds to 31 March 2013	**(3,257)**	*(3,257)*	-	-	-	**3,257**
Understatement of contributions income and receivables	**(229)**	*(229)*	-	-	-	**229**
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(3,486)**	*(3,486)*	-	--	-	**3,486**
Fund account (surplus) / net assets if adjustments accounted for	**(277,292)**					**2,347,762**

61

APPENDIX III: MATERIALITY

MATERIALITY		Investments	Income & Expenditure items
Planning materiality		£21,000,000	£4,200,000
Final materiality		£23,000,000	£3,600,000
Clearly trivial threshold		£690,000	£110,000

Planning materiality for the pension fund was based on 1% of gross asset value and 1% of gross income based on an average of three years, with the 2012/13 figures being based on estimates. The final figure was based on the full year outturn per the draft financial statements.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Audit engagement partner	3	N/A
JASON HOMEWOOD - Engagement quality control reviewer	6	N/A
JANINE COMBRINCK - Director	4	N/A
LIANA HINE - Audit Manager	1	N/A

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: ACTION PLAN

INTERNAL CONTROL RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
When reviewing the access rights on Altair, it was noted that an Officer who used to work at South East Shared Services and now works as an officer at County Hall for the Pension Fund, still has administrator access for the system. On discussion we noted that this administrator access is temporary and is required in order for the officer to assist with the tri-annual return. However it should be ensured that this temporary access is removed as soon as it is no longer required.	Ensure that the temporary administrator access is removed for the officer working at County Hall once the exercise with the tri-annual return is complete.	Agreed – this temporary access arrangement is required to be able to resource the on-going 2013 tri-annual actuarial valuation exercise/ process, due to be completed in November 2013.	Ola Owolabi, Head of Accounts and Pensions	November 2013

APPENDIX VI: FEES SCHEDULE

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 £26,607 with management, before we report the final fee outturn.

APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	6 September and 10 September 2013	Management and those charged with governance	Report to Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✔	✔	✔
The final draft of the representation letter	✔	✔	✔
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control paragraph	✔	✔	✔
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✔	✔	✔
Other information in documents containing audited financial information	✔	✔	✔
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

APPENDIX VIII: DRAFT REPRESENTATION LETTER

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 Acting 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.

BDO LLP
55 Baker Street
London
W1U 7EU

10 September 2013

Dear Sirs

Financial statements of East Sussex County Council and East Sussex Pension Fund for the period ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of East Sussex Pension Fund for the year ended 31 March 2013 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 our knowledge and belief, and having made appropriate enquiries of directors and officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for financial statements

I acknowledge as the Acting Chief Finance Officer 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 and have been prepared in accordance with the requirements of applicable law.

Significant assumptions

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

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 (RPI)	2.8%
• Rate of increase in salaries	5.1%
• Rate of increase in pensions	2.8%
• Expected return on assets	4.5%
• Rate for discounting scheme liabilities	4.5%
• Take up option to convert the annual pension into retirement grant - pre 31 March 2008	50%
• Take up option to convert the annual pension into retirement grant - post April 2008	75%

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 2013, 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 2013, and is therefore correctly defined as a cash equivalent, and that all other cash deposits are not held for that purpose and are therefore defined as investments in accordance with the Council's accounting policies.

Accounting policies

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

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

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

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 restatement for closed landfill sites provision, the adjustment relates to a change in accounting policy as I believe that the new accounting policy is 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 policy.

Additional information

Any other matters relevant to the financial statements on which written representations are sought.

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 control 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 laws 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, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

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

Title to assets

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

Contractual agreements

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

Yours faithfully

Mo Hemsley
Acting Chief Finance officer

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 Acting Chief Finance Officer 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 Acting Chief Finance Officer 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 Keith Glazier
Leader of the Council and Chair of the Governance Committee

For and on behalf of East Sussex County Council

www.bdo.co.uk

East Sussex County Council

Statement of Accounts

2012/13

Contents **Page**

Notes to the Accounting Statements Index

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 2012/13.
- The Statement of Responsibilities – this details the responsibilities of the Council and the Acting Chief Finance Officer 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, BDO 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 2012/13. However, any significant events or developments that occur between 31 March 2013 and the date on which the Statement of Accounts is signed by the Acting Chief Finance Officer 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 Accounting Policies Note – this note 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 2012/13, assets, and liabilities as at 31 March 2013.
- 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 2012/13 (the Code) highlights the following most significant key changes in accounting practice:

- The 2012/13 Code includes changes in relation to the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's).
- The 2012/13 Code includes an encouragement for local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FReM).
- The 2012/13 Code includes the amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).
- The 2012/13 Code does reflect the changes included in the 2011/12 Code Update.

- Clarification of Requirements – Proper Practice or Legislative has lead into some rearrangements in the Code but no new requirements.
- Carbon Reduction Commitment (CRC) Energy Efficiency Scheme – the Guidance Notes reflect updates to cover the accounting requirements per the 2012/13 Code.
- Non-current Assets – in order to address a number of areas where uncertainty was identified, the guidance has been improved and enhanced.
- Clarification of Requirements – Proper Practice or Legislative has lead into some rearrangements in the Code but no new requirements.

Financial Report

Setting the Revenue Budget for 2012/13 – 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 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:

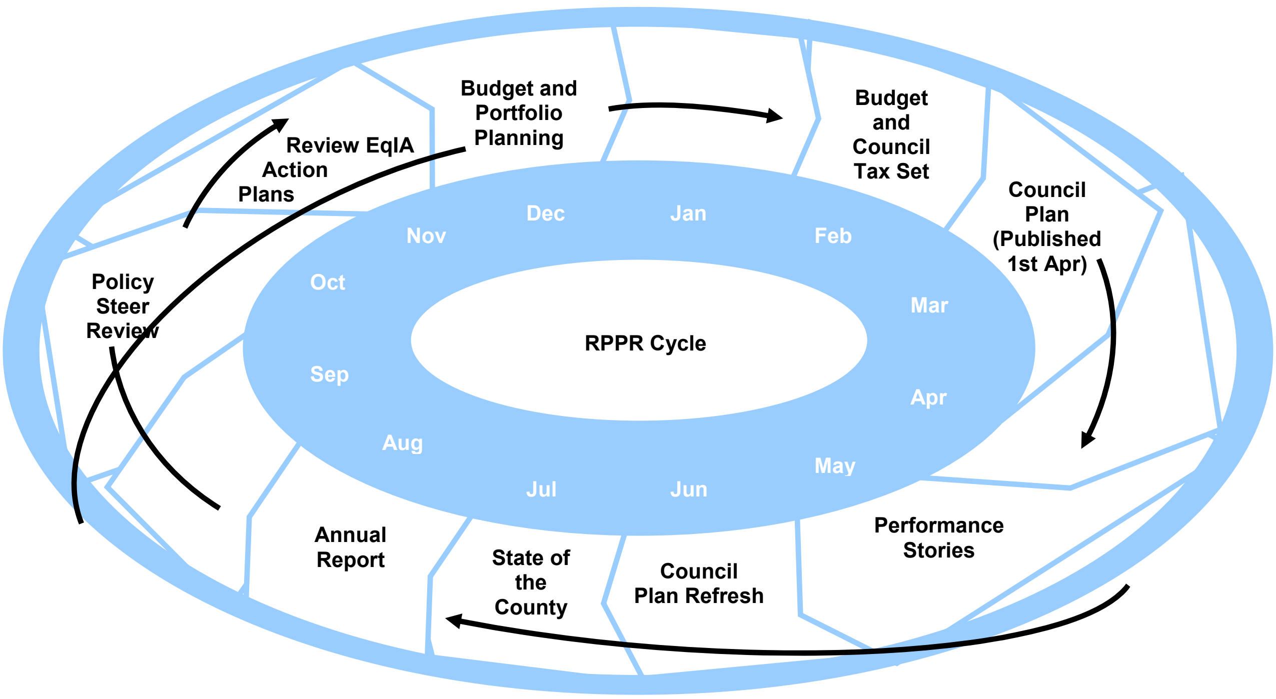
- **Our Promise and Policy Steers** are set by the Council for each Cabinet portfolio and represent a medium term strategy and statement of priorities to guide the business planning processes.

- **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 Corporate Management Team (CMT) / Cabinet / Council discussion and decision. Work started on developing the draft budget strategy for 2012/13 during the summer of 2011. This involved officers and Cabinet Members together looking at overall Council expenditure.

Income

Our 2012/13 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant (Formula Grant), 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 2012/13 was £114.4m; effectively a reduction of £8.4 on a like-for-like services basis. For residents there has been no increase in the council tax for 2012/13 (2011/12 was 0%) which was consistent with the published strategy of reducing the annual increase in tax.

Setting the Revenue Budget for 2012/13 – the final budget strategy

The final budget strategy was presented to Council in February 2012. Overall, the budget set for 2012/13 targeted growth to our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

In setting the budget for 2012/13, the County faced cost increases of £17.3m just to maintain its service levels as well as a loss of funding for Academies of £1m. After allowing for the general grant reduction of £8.4m, planned increase in council tax (and Collection Fund balances) of £1.6m, and Council tax freeze grant of £6.0m, the net cash reduction available for services amounted to (-) £1.8m. Thus, savings of £19.1m were required to balance the budget.

The key steps that we took to make savings included:

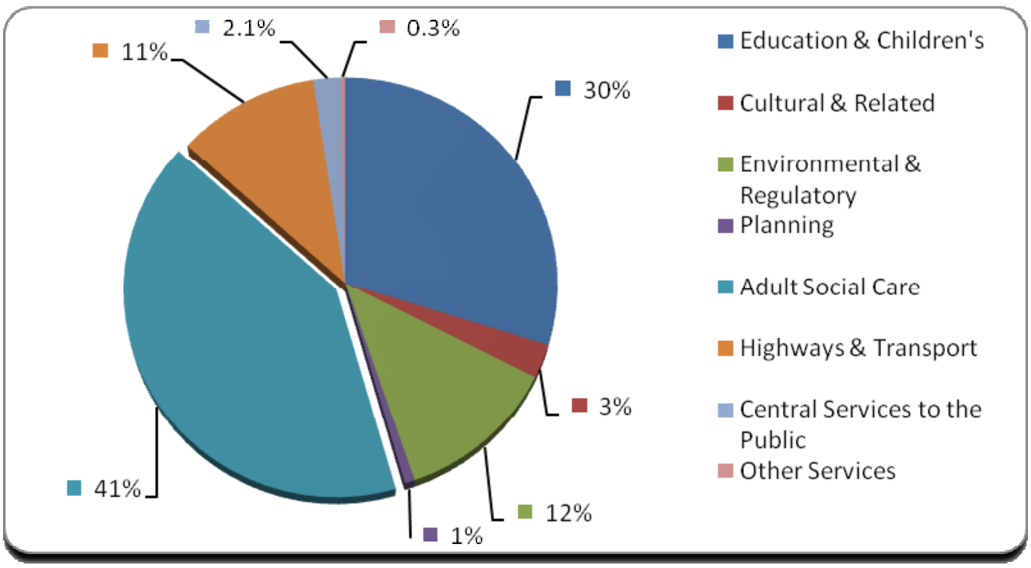
- Reduced administration and procured services more cost effectively from our suppliers.
- Inflationary increases available only for priority services.
- Careful use of all our specific grant funding and targeted priority services.
- Managed our money prudently, which contributed to interest earned on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

The key inflation assumptions for 2012/13 were a pay freeze of 0% awards, and 4% for general cost inflation.

So how much was spent on the revenue account

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

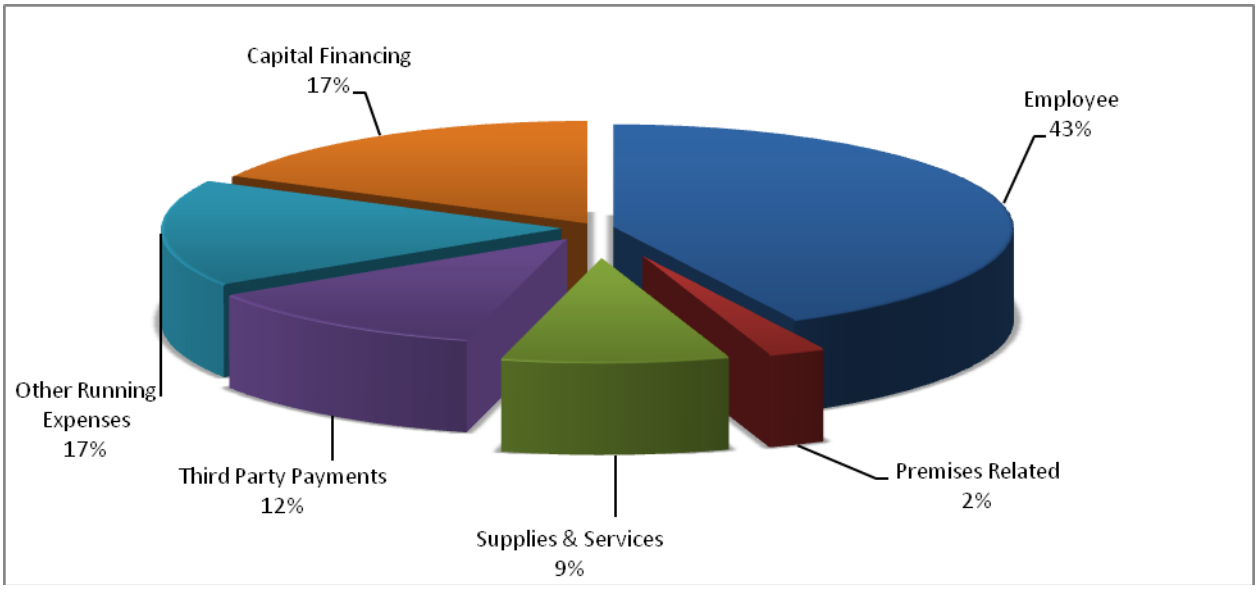
The Services Provided – Analysis of expenditure



Central services to the Public includes Central Services, Corporate and Democratic Core and Non Distributed costs line from the CIES.

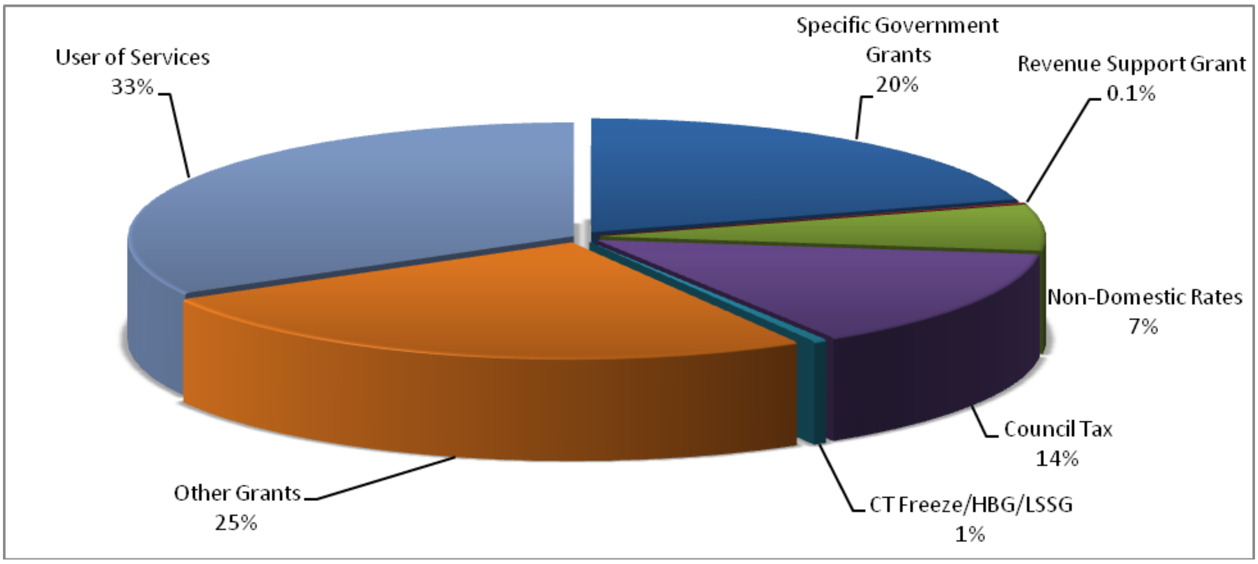
In total, our net revenue expenditure was £364.9m.   The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 43% of the expenditure. Running expenses including costs of premises at 2%, supplies and services at 9%, and third party payments account for 12% with other expenses running at 17%, 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 17%.

Where the money came from



The chart shows that 20% of our income came from Specific Government grants, RSG at 0.1%, 14% of our income came from residents through the council tax, 32.9% of our income came from general grants, including business through the Non-Domestic rates, and 33% of our income came from users of our services.

Analysis of the Revenue Budget

The table below sets out the revenue budget for 2012/13 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate	Actual Outturn	Variation
	£m	£m	£m
Adult Social Care	153.8	149.5	4.3
- Supporting People	13.3	12.4	0.9
- Community Safety	0.8	0.7	0.1
Governance and Community Services	15.1	13.9	1.2
Children's Services Department	86.3	86.2	0.1
Corporate Resources	16.4	16.0	0.4
Economy, Transport & Environment	77.5	77.5	0.0
Service Spend (incl. DSG Related)	363.2	356.2	7.0
Treasury Management, etc.	1.7	(3.3)	5.0
Net Expenditure	**364.9**	**352.9**	**12.0**
Transfers into Specific Reserves and Balances	-	12.0	(12.0)
Net Budget	**364.9**	**364.9**	
Financed from:			
Revenue Support Grant	2.2	2.2	
Non-Domestic Rates	112.3	112.3	
Council Tax	240.8	240.8	
Adjustments for earlier years	1.1	1.1	
Council Tax Freeze Grant	6.0	6.0	
Local Services Support Grant (LSSG)	1.7	1.7	
New Home Bonus Grant	0.8	0.8	
	364.9	**364.9**	
Balances:			
Opening	8.3	8.3	
Added / (withdrawn) during the year	-	0.6	
Closing	**8.3**	**8.9**	

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.

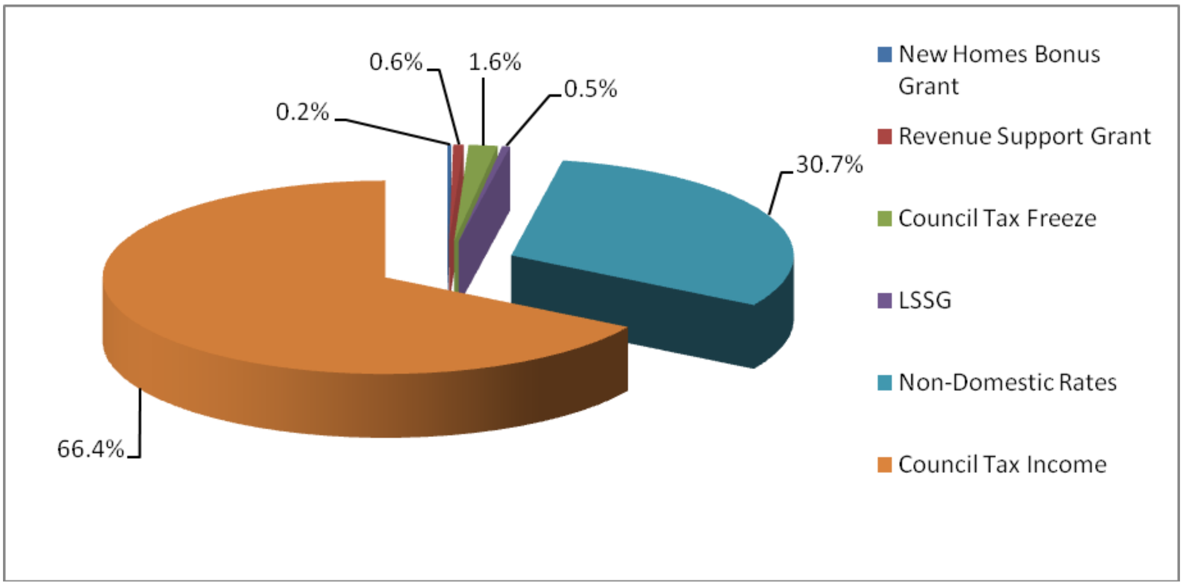
The table shows actual spending of £352.9m during 2012/13, based on the total cost of providing services including charges for support services, and use of assets. The current estimate of service spending and the net budget for the year was £363.2m, with total actual expenditure of £356.2m.

There is a net underspend of £11.99m on the Revenue Budget (including treasury management activities) which represents 3.3% of the current budget. Throughout 2012/13, the Council has been mindful of the need for further reductions in future years and managed the budgets accordingly. The Council as part of the MTFP refresh is now reviewing all underspends to assess the medium term implications. In implementing the new reserves policy, a new approach has been agreed by CMT and Cabinet, which recognised the challenges facing the Council including supporting cross cutting priorities and the management of risks and issues. This has included business cases to support transfers into reserves and the level held at the end of the year has been formulated, in accordance with the new policy approved by Cabinet. During this period of austerity, sound financial management is essential to ensure long term success and stability. The revenue underspend will help the Council to deliver its medium term budget strategy and be used to support programmes that will allow the Council to manage its services in a changing public sector environment over the longer term.

The Council's general balance of £8.9m at the year end is in line with the target minimum level of 2.25% (actual 2.34%) 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.

How the Council finance it net revenue expenditure



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'.

The Council introduced a new reserves policy as explained above to support the Council's strategic agenda and support corporate cross cutting priorities, and in particular:

- the challenges posed by a likely decade of austerity;
- uncertainty over the timing of reductions in government support;
- the requirement to manage significant organisational change;
- the heightened risk profile across public services delivery arrangements; and
- the emphasis planed on a unified organisation response.

Details of the Council's earmarked reserves can be found on page 50, Note 9 to the Accounting Statements. Current earmarked reserves held at 31 March 2013 totalled £129.9m. Of this £45.8m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility. The remainder of the significant reserves are to help meet –

- some of the cost of capital programme;
- insurance liabilities reserve to manage litigation and other corporate risks not otherwise recognised;
- the challenges posed by a likely decade of austerity;
- uncertainty over the timing of reductions in government support;
- the requirement to manage significant organisational change;
- the heightened risk profile across public services delivery arrangements; and
- the emphasis placed on a unified organisational response.

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 2013 totalled £18.01m (Note 22).

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. The Council is planning for further 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

In 2012/13, the County Council spent £113.9m gross (£57.9m net of external funding) on its roads, schools, and other capital projects.

The original budget at the start of the year was £168.2m. 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. This year the programme was subject to a thorough review. Where necessary projects were re-profiled or removed as uncommitted and where possible accelerated, these changes were submitted to Council for approval in February as part of the 2013-14 programme setting. These variations formed the revised estimate against which future monitoring took place. The programme is also revised through formal approved variations as and when better information becomes available and further external funding is secured. The final revised budget for the year was £126.6m of which £59.2m was supported by scheme specific resources giving a net provision of £67.4m.

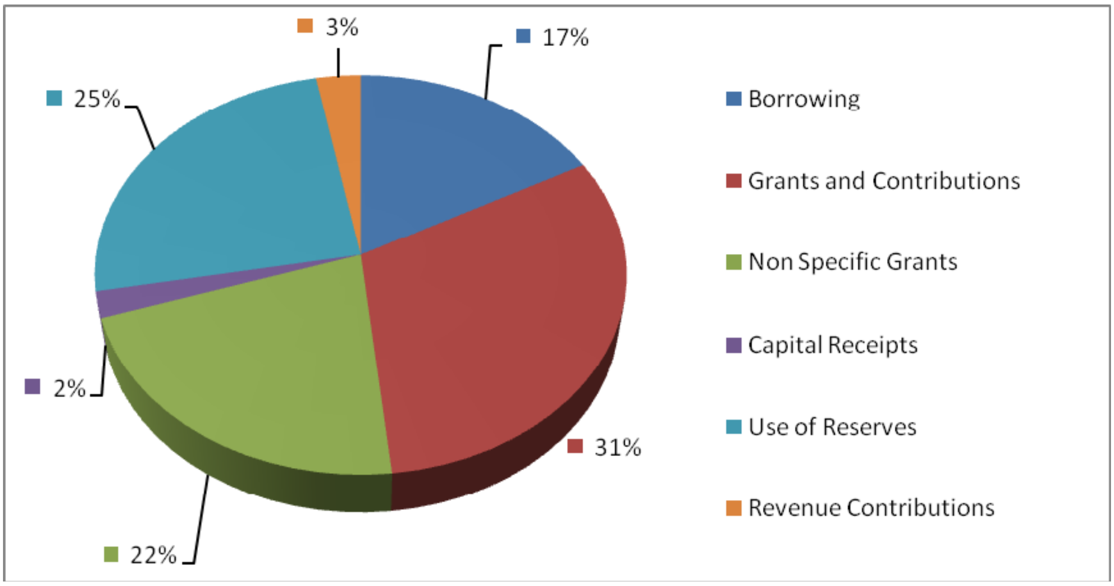
The underspend of £9.5m compared to the revised net provision represents expenditure in advance of 2012/13 budgets of £2.8m, offset by scheme delays (slippage) of £10.6m and underspends of £1.6m.

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

During 2013/14 the County Council plans to invest £171.2m, the planned funding for this is:

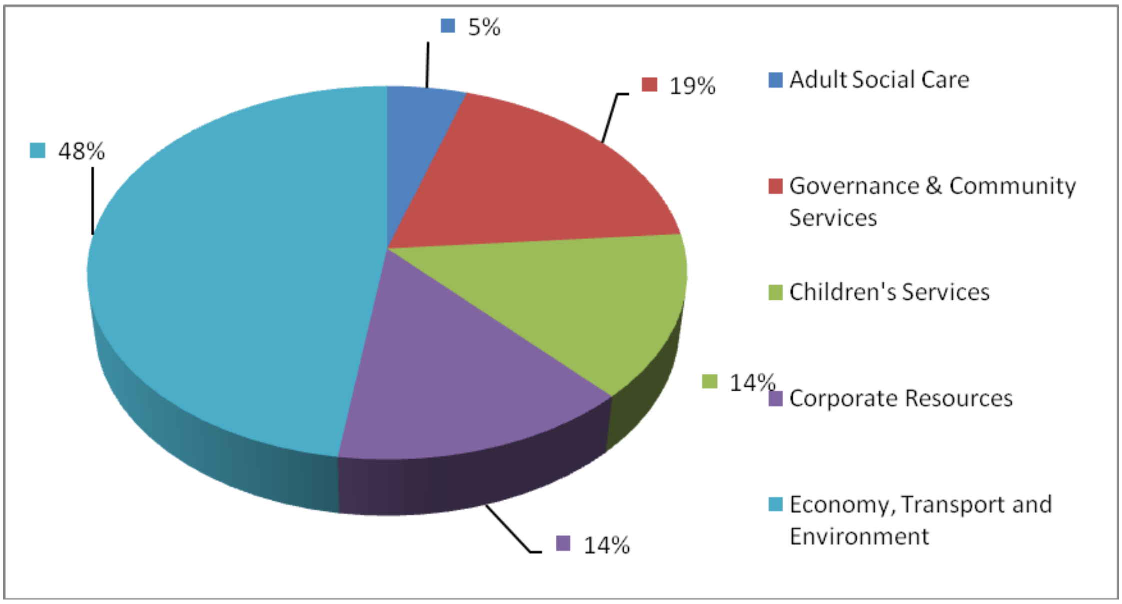
	£m
Borrowing	29.3
Scheme Specific grants and contributions	53.4
Non specific grants	37.1
Capital Receipts	3.63
Use of reserves	42.7
Revenue contributions	5.1
Total resources	**171.2**

How the Council finance capital expenditure



Capital programme expenditure

Capital expenditure represents money spent by the Council on purchasing, upgrading, and improving assets that will be of benefit to the community over many years



Capital Board - A new Capital Board was created in July 2012 consisting of members from across Departments including Head of Capital Strategy (CSD), Assistant Director Operations (ET&E), Assistant Director Property, Head of Procurement, Head of Financial Planning and chaired by the Director of Children's Services. The Capital Board are an independent peer review group providing a strategic lead ensuring that the capital programme is made up of projects that meet the overall strategic aim of the Council which is particularly important as resources become more limited.

The members of the board bring different skills and expertise to the table in order to challenge the current programme and provide ongoing assurance that the capital programme is on target to meet the Council's objectives, this challenge will take place through gateway level reviews at various key points in each project's lifecycle. A Capital Strategy was created by the board, which give an understanding of how the capital review links to the Council Plan.

~ Bexhill Hastings Link Road

The main reason for building the road is to regenerate the most deprived area in the south east and one of the most deprived in the UK. Hastings is ranked 19 out of 326 local authorities in terms of deprivation and has a Job Seekers Allowance (JSA) claimant rate of 5.6% - considerably higher than the national average of 3.7%. £500 million will be spent on economic regeneration across East Sussex and the Council believe the link road will support this regeneration and benefit residents and businesses by opening up access to land for housing, business developments and employment opportunities

The scheme has been carefully designed to minimise impact on the countryside and protected areas. Close to the road, a 'greenway' will allow cyclists, walkers and horse riders to travel separately from motor traffic and enjoy the surrounding countryside. The route of the road avoids the Area of Outstanding Natural Beauty (AONB) and Sites of Special Scientific Interest (SSSI). New wildlife habitats will be provided, under the supervision of ecologists.

The Council is working with Natural England on a '2 for 1' tree replacement scheme. For every tree that is removed, two will be planted. 19 hectares of woodland and extensive hedgerow planting will provide cover to hide the road and minimise views and sounds of traffic.

In April 2013 the Department for Transport (DfT) announced final funding approval for the Bexhill to Hastings Link Road. The Department will contribute a maximum of £56.85m towards the scheme.

East Sussex Pension Fund

During the year to 31 March 2013, the overall increase in the Fund due to positive performance in equity and other markets was estimated to be 14.7% compared to the average estimated increase in Local Authority funds of 13.8% 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 £300.2m at the start of the year to £357.6m at 31 March 2013. Note 43 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 2012, the actuary assumed a discount rate of 2.2% real (4.8% 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 2013, the actuary has advised that a rate of 1.7% real (4.5% 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 £127m, included in the actuarial loss recognised for the year in the Movement in Reserves Statement (MiRS).

- Asset returns on the Fund in the year to 31 March 2013 were better than expected for the Council. As noted above, the increase in the Fund's assets due to investment performance was estimated to be 14.7% per annum, compared to the expected return on assets at the start of the year of 5.9% 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 £535.7m, £202.9m and £440.7m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2013. There is also a liability of approximately £38.8m in respect of LGPS unfunded pensions and £45.1m 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 2012/13, agreed in January 2012 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. The strategy aims to continue 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).

2013/14 and beyond

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

~ Economic Outlook

Despite initial optimism about a recovery in late 2011, the economy weakened at the start of 2012 and briefly entered a double-dip recession, before recording strong 1% growth in Q3 largely as a result of the Olympics and a recovery from the Q2 Jubilee Bank Holidays. After the first two quarters, the Bank of England revised downwards its growth forecast for 2012-13 to 0%, and despite the strong Q3 performance, growth is still expected to fall back in Q4. Latest forecasts from the Office for Budget Responsibility (OBR) indicate a 0.1% overall decline for 2012.

The Bank of England's projection for GDP growth over the next three years indicate that the return to sustained growth could still be two years away, although even the best estimates of the path of the economy from the Bank of England, carry a significant amount of variability and uncertainty within them. The official bank interest rate remains low at 0.5% and is forecast to remain at this level during 2013 and beyond. Whilst lowering the rate further is option for the Bank's Monetary Policy Committee (MPC).

~ Central Government Funding of Local Services

The Council's gross expenditure is paid for from a number of sources including Dedicated Schools Grant (for schools), other specific grants (for particular services), fees and charges, and other income contributions to form a net budget. This Net budget is then funded from council tax, and by general Government grant sources (currently funded by centrally collected business rates). The Council budget report noted that one of the key risks to the then MTFP position would be the Local Government Resource Review being undertaken by Government. This has resulted in two fundamental changes to Local Government funding:-

1) Business Rates Retention
2) Localisation of Council Tax Support

The stated aim of these schemes was to provide more flexibility at a local level in the way money was collected and grown (Business rates Retention) and more control over how it is spent (Localisation of Council Tax Support).

~ Business Rates Retention

The Local Government Finance Act 2012 introduces a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. Under the new Business Rates Retention scheme, Councils will retain a 50% share of all and any additional business rates they get above a determined baseline. This potentially provides a direct local incentive to encourage growth within local boundaries. The amount of business rates retained locally will only be fully known at the end of the year. It should be noted that Districts and Boroughs are the collection authorities, but also as recipients of 80% of locally retained business rates are wholly incentivised to maximise collection rates. One aspect of the new scheme is the ability for councils to pool their business rates resources. Discussions have taken place with district and borough councils in East Sussex about the viability of pooling business rates. Officers have concluded that it is better to review pooling proposals later in 2013, for 2014/15 when overall funding arrangements are better understood, and experience of other pooling schemes established.

~ Local Council Tax Support (LCTS)
In the 2010 Spending Review, the Government announced proposals to reduce funding for Council Tax Benefit by 10% (saving £490m nationally) and to localise the responsibility for providing this new Council Tax Support. The spending decrease would have to be achieved by reducing entitlements within new local schemes or by increasing council tax. The new arrangement would share the cost of the local Council Tax Support schemes according to council tax revenues. As a result, approximately 70% of the cost would be born by the County Council. The Council has worked with Districts and Boroughs to successfully introduce a countywide scheme initially supported by the transitional grant. Arrangements are being carefully monitored to inform both formulation of the scheme for 2014/15 and beyond and the financial implication in 201314 and beyond.

~ Medium Term Financial Strategy
Any MTFP will always require an annual review; assumptions made a year ago are looked at afresh; new information on funding and service delivery is assessed and pressures arising within the current financial year are considered in terms of their impact on the future year's budget.

The last major Spending Review of government expenditure (SR10) first impacted on the Council's 2011/12 budget. This saw the biggest reduction ever seen in Local Government funding in response to the Coalition Government's drive to reduce the national deficit. The formal announcement from Government at the next Spending Review taking place in 2013 (SR13) has an expectation of continuing budget attrition. Assumptions will need to be reviewed as more up to date information becomes available, and the MTFP updated accordingly. The lack of clear economic recovery nationally means that the MTFP has been built using judgements and information available from a number of different sources.

The Council's Medium Term Financial Strategy is driven by the need to address two basic and conflicting pressures, namely reducing funding and cost pressures arising from a growing demography, an increasing service demand, compounded by rising inflation and contract costs. It is evident that Local Government will continue to be set considerable challenges to deliver more for less for the foreseeable future. This will require the support and engagement of citizens, communities, local businesses and employees, working innovatively together to continue to protect the most vulnerable whilst at the same time seeking to grow the prosperity and influence of the County for the benefit of the citizens of East Sussex. There is a determination by the Council to use all the resources available to it, to ensure East Sussex remains a great place to live and work.

~ Council Tax Base
The tax base calculation has been significantly complicated for 2013/14, as a result of the aforementioned Local Council Tax Support [LCTS]. The changes in the funding and responsibilities for LCTS mean that rather than giving a benefit to meet the costs of Council Tax, support will now be in the form of a discount against Council Tax owed. This in turn reduces the Council taxbase against which Council Tax can be levied. In order to calculate the revenues from council tax, other changes in the tax base also need to be considered, e.g. the tax base takes into account growth in the number of chargeable properties and changes in the number of other discounts and exemptions provided.

~ Council Tax Freeze Scheme 2013-14
The Government announced that they will provide a fixed two year non ring-fenced grant equivalent to a 1% increase in Council Tax for local authorities that decide to freeze their Council Tax in 2013-14. Local authorities that increase their 2013/14 council tax will not be eligible for the grant. Notification received by the Council equates this to be £2.4m. There is a cost to the Council accepting this Council Tax Freeze Grant as opposed to increasing in Council Tax because the grant is only a fixed term for two years, rather than on-going source of revenue from an increase in council tax. The budget for 2013/14 agreed to accept the grant and freeze Council Tax, as the Council wishes to reduce the impact of increases to the community.

~ Council Tax Referendums
As part of the 2011 Localism Act, Council Tax capping in England has been abolished and has been replaced by new powers for residents to approve or veto potentially excessive council tax increases through a local referendum. Therefore, each year, the Government gives an indication of the level of council tax increase they are minded to consider as "not excessive". The final announcement is confirmed by Parliament usually in early February before the new financial year commences.

~ Local Spending Pressures
The Council has additional costs to manage each year, for example inflationary pressures, demographic changes, and the increasing costs of ongoing contractual and bought in service arrangements. As a result the Council, whilst at the same time having a reduced funding base, must consider these as part of balancing the budget. As part of the review of the MTFP and within detailed budget preparations, the assumptions behind pressures were reviewed and challenged.

~ Savings
Savings proposals were developed to achieve £71.5m across the three years of the MTFP, and provide Members with the ability to mitigate some of these savings to achieve as overall £60m saving across each key service area along with the management and support. The Council will continue to deliver and review savings plans to deliver a balanced position in each of the three years to 2015/16, including the potential to use reserves to smooth the delivery of the savings should this be required.

~ 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 has transferred to councils from April 2013. The Secretary of State for Health announced on 10 January 2013 the new ringfenced Public Health Grant allocations for 2013/14 and 2014/15. The national funding amount of £2.66bn has been distributed according to a formula principally based on the population size of each local authority. This grant is ringfenced. The allocation per head by the DoH's calculation for ESCC is £45, whereas the national average is £49.

~ NHS funding transfer to local authorities
Under current funding arrangements, the NHS is required to passport funding to the County Council to help the County achieve specified health outcomes in the Social Care arena. The funding will be transferred to ESCC ASC under a Section 256 agreement.

~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 2012/13 Accounting Statements exclude the assets of schools that have gained academy and foundation status resulting in a loss on disposal of £84.4m (Note 6) in the year.

~ Changes to School Funding Arrangements
Funding for schools and other pupil related services is provided via the Dedicated School Grant. In March 2012, the Department for Education made a clear commitment to reform the school funding system and end the inequalities and inconsistencies that built up over many years. They want a system which is up to-date and reflects the current demographics of pupils across the country; targets additional monies to pupils who need extra support to achieve; is consistent and pupil led so that, wherever a pupil goes to school, they will attract similar levels of funding; is transparent so that parents, head teachers, governors and tax-payers can see clearly how funding has been distributed, and why, and gives pupils genuine choice.

They will introduce a national funding formula in the next spending review period but will take a gradual approach to ensure they get it right. In 2013-14 some improvements have been made to the current system so there is greater focus on needs of pupils and greater consistency across local areas.

~ LACSEG and Education Services Grant
A significant adjustment is the transfer out of general funding totals for the Local Authority Central Schools Equivalent Grant (LACSEG). LACSEG is intended to represent the Local Authority expenditure on "central" services provided to Schools(which includes central support, welfare, school improvement, health and regulatory services etc). By removing it from the funding total, the Government intend to redirect sums for these central services away from local authorities to independently pay for equivalent "back office" services within academies schools. This grant is called "Education Services Grant**"** and the Council is reviewing expenditure against this.

~ Local Authority Mortgage Scheme
The Local Authority Mortgage Scheme is aimed at first time buyers, providing help for potential buyers who can afford mortgage payments, but not the initial deposit, to get on to the property ladder. At national level the scheme has proved very popular with first schemes being fully utilised quickly in many areas and second schemes being launched by many councils.

The Local Authority will be required to place a five-year deposit at the start of the scheme to the full value of the indemnity being offered. The deposit will be in place for the term of the indemnity – i.e. five years (with the possibility of a further two year extension if the mortgage is in arrears at the end of the initial five years) - and may have conditions / structures attached. the Local Authority will receive a five-year commercial deposit rate plus a premium. In the event of no default by the buyer, the deposit is returned to the Local Authority at the end of the indemnity period. The scheme is proven nationally and locally, and considered to be low risk.

The funding of the LAMS will be provided through the Council's normal cash flow and Treasury Management investments and does not require any new cash to support it. This new initiative will have no impact on the existing approved Capital Programme. It is recommended to expand the overall Programme to show the scheme as a capital project, in line with the formal advice for such schemes. The £10 million recommended level will be used to contribute funding to schemes in district and borough areas and allows for second schemes in each area as appropriate depending on experiences and take up of the initial scheme. The Cabinet on 5th March 2013 recommended the County Council to approve the expansion of the Capital Programme to include the Local Authority Mortgage Scheme. The County Council agreed the recommendation.

~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 CO_2 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.

~ Councillors and the Local Government Pension Scheme

Subject to consultation, the Government propose that there will be no access for councillors to the Local Government Pension Scheme in England from April 2014. This consultation is part of the planned process of wider reform of the Local Government Pension Scheme that began with the commitment given in the Coalition government's programme to review the long term affordability and sustainability of taxpayer-funded pension schemes. Under the proposals councillors would no longer be allowed access to the Local Government Pension Scheme (LGPS). The DCLG has identified three options for consultation whereby councillors and local elected office holders may, or may not, access the new scheme from 2014.

- Option 1: No access to the new Local Government Pension Scheme from April 2014 through being directly elected to local office.
- Option 2: Two-tier membership - continued access for 'front bench' councillors only.
- Option 3: No change. Access to the taxpayer-funded Local Government Pension Scheme remains for all councillors and elected local office holders on the same basis as at present.

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 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, 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 20 - 21.

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

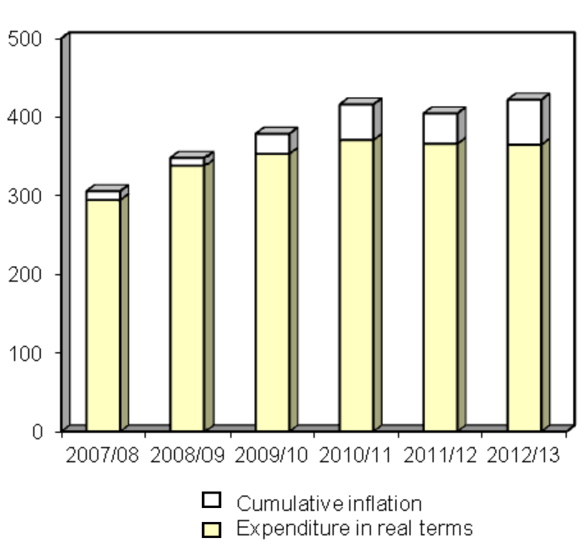
The 2012/13 Audit Opinion and Certificate is available on pages 17 to 19.

Mo Hemsley

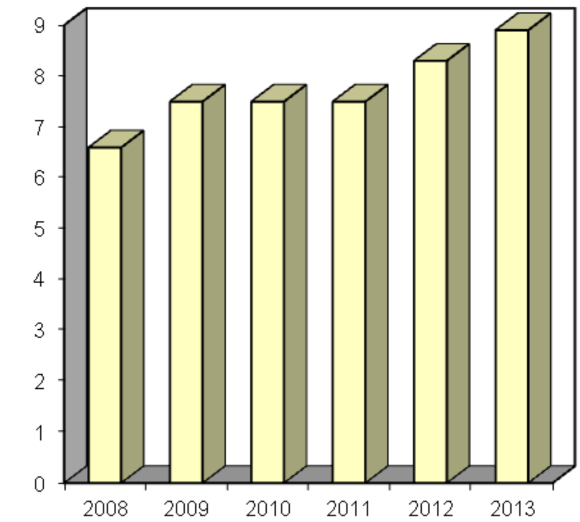
Acting Chief Finance Officer

10 September 2013

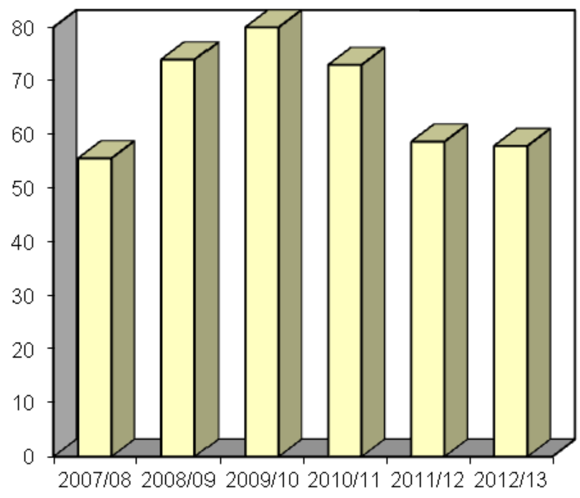
Net Revenue Expenditure in real terms £m



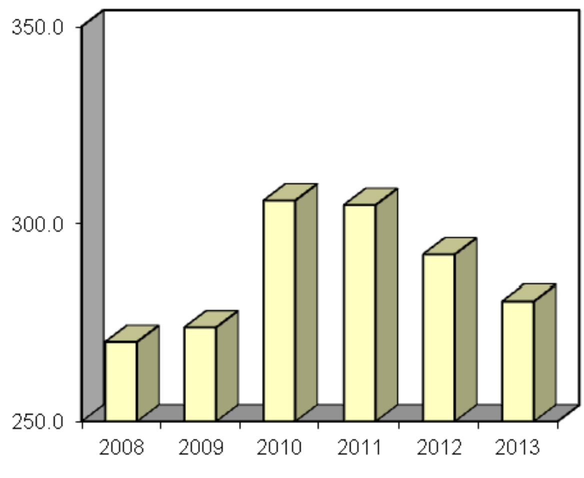
Revenue Balances at 31 March £m



Capital Expenditure £m



Capital Financing Requirement at 31 March £m



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 Acting Chief Finance Officer;
- 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 Acting Chief Finance Officer

The Acting Chief Finance Officer 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 2013.

In preparing this Statement of Accounts, the Acting Chief Finance Officer has:

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

The Acting Chief Finance Officer 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 Council's financial position and its income and expenditure for the year ended 31 March 2013.

Mo Hemsley

Acting Chief Finance Officer
10 September 2013

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 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the 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 2012/13.

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 Acting Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Acting Chief Finance Officer 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 Acting Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword by the Acting Chief Finance Officer 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 2013 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 2012/13.

Opinion on other matter

In our opinion, the information given in the Foreword by the Acting Chief Finance Officer 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 2013 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 2012/13.

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 Acting Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Acting Chief Finance Officer 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 Acting Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword by the Acting Chief Finance Officer 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; 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 2012/13.

Opinion on other matters

In our opinion, the information given in the Foreword by the Acting Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority 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 Authority 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 Authority'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 November 2012, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority 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 November 2012, 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 2013.

Tamas Wood
for and on behalf of KPMG LLP/KPMG Audit Plc
Brighton Road, West Sussex, RH11 9PT
xxx September 2013

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 LLP
London, UK
xxx September 2013

1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussexcc.gov.uk or can be obtained from the Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit Regulations 2011 for reviewing its system of internal control.

2. Purpose of the governance framework

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

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

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2013 and up to the date of the approval of the statement of accounts.

3. Review of effectiveness

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

- the work of Members through the Cabinet, Committees including Governance Committee, Standards Committee, Audit Best Value and Community Services Scrutiny Committee, Scrutiny Committees generally and the full Council;
- the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
- the work of the Chief Operating Officer and the Chief Finance Officer;
- the work of the Monitoring Officer and the Statutory Officers' Group ;
- the risk management arrangements, including the maintenance and regular review of strategic risks by Chief Officers and departmental risks by management teams;
- the work of the internal audit service including their quarterly progress reports, on-going actions tracking arrangements and overall 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 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 2012/13 the Deputy Director, Finance was the section 151 Officer and Chief Finance 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 risk management framework, which takes account of both strategic and operational risks and ensures that they are appropriately managed and controlled;
- Member committees with clear responsibilities for governance, audit and standards
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption;
- schemes for identifying the development needs of Members and officers, supported by appropriate training;

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

5. Assurance and Significant Governance Issues

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

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

The 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, through the Directorate Assurance Statements, has identified a number of areas where it wishes to enhance its governance arrangements. These are set out on the attached annex A together with the Department responsible for them. These areas include:

- To complete the consolidation of support services and embed all arrangements for the Business Services Department
- To implement improvements in corporate financial monitoring and linkage with performance and risk management information
- To review, assess and where necessary, strengthen the County Council's anti-fraud and corruption arrangements
- To further development of integrated working with the East Sussex NHS Clinical Commissioning Groups to develop joint commissioning and service delivery
- To establish new committees following the County Council elections and train and induct new members

The Council Plan identifies a number of areas that have Governance implications and these will be monitored through the Council Plan. The areas outlined in the attached annex A will be monitored through departmental business plans.

The Council has also identified a need to develop its approach to transparency and to respond to the Government's open data agenda, which will be monitored and managed.

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

Cllr Keith Glazier
Leader and Chairman of the Governance Committee
10 September 2013

Becky Shaw,
Chief Executive
10 September 2013

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	Capital Grants Unapplied	Earmarked reserves – General	Earmarked reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves (Restated)	Total Council Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Restated Balance at 31 March 2011 (Notes 23 and 24)	**7,540**	**13,518**	**6,372**	**-**	**179,470**	**5,605**	**212,505**	**324,330**	**536,835**
Movement in Reserves during 2011/12									
Deficit on provision of services	(23,797)	-	-	-	-	-	(23,797)		(23,797)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(50,706)	(50,706)
Total Comprehensive Income and Expenditure	**(23,797)**	**-**	**-**	**-**	**-**	**-**	**(23,797)**	**(50,706)**	**(74,503)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	(8,656)	-	1,553	53,916	-	-	46,813	(46,813)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(32,453)**	**-**	**1,553**	**53,916**	**-**	**-**	**23,016**	**(97,519)**	**(74,503)**
Transfers to / (from) Earmarked Reserves (Note 9)	33,216	3,238	-		(38,621)	2,167	-	-	-
Increase / (Decrease) in Year	**763**	**3,238**	**1,553**	**53,916**	**(38,621)**	**2,167**	**23,016**	**(97,519)**	**(74,503)**
Restated Balance at 31 March 2012 (Notes 23 and 24)	**8,303**	**16,756**	**7,925**	**53,916**	**140,849**	**7,772**	**235,521**	**226,811**	**462,332**

Note

Total Council Reserves (see Note 24 Unusable Reserves – Capital Adjustment Account for details) have been restated at 31 March 2011 by £9.13m, from £545.965m to £536.835m.

	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked reserves - General	Earmarked reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves (Restated)	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Restated Balance at 31 March 2012 (Notes 23 and 24)	**8,303**	**16,756**	**7,925**	**53,916**	**140,849**	**7,772**	**235,521**	**226,811**	**462,332**
Movement in Reserves during 2012/13									
Deficit on provision of services	(74,570)	-	-	-	-	-	(74,570)	-	(74,570)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-		(44,135)	(44,135)
Total Comprehensive Income and Expenditure	**(74,570)**	**-**	**-**	**-**	**-**	**-**	**(74,570)**	**(44,135)**	**(118,705)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	55,877	-	2,623	2,682	-	-	61,182	(61,182)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(18,693)**	**-**	**2,623**	**2,682**	**-**	**-**	**(13,388)**	**(105,317)**	**(118,705)**
Transfers to / (from) Earmarked Reserves (Note 9)	19,288	(526)	-	-	(22,921)	4,159	-	-	-
Increase / (Decrease) in Year	**595**	**(526)**	**2,623**	**2,682**	**(22,921)**	**4,159**	**(13,388)**	**(105,317)**	**(118,705)**
Balance at 31 March 2013 (Notes 23 and 24)	**8,898**	**16,230**	**10,548**	**56,598**	**117,928**	**11,931**	**222,133**	**121,494**	**343,627**

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.

2011/12				2012/13		
Gross Expenditure Restated	Gross Income	Net Expenditure Restated		Gross Expenditure	Gross Income	Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
497,167	(388,110)	109,057	Education and children's services	476,783	(358,473)	118,310
13,796	(2,382)	11,414	Cultural & related services	10,723	(2,136)	8,587
25,143	(6,717)	18,426	Environmental & regulatory services - Note 6	56,775	(8,442)	48,333
2,816	(577)	2,239	Planning services	6,985	(3,890)	3,095
238,168	(70,729)	167,439	Adult social care	242,372	(76,457)	165,915
48,914	(10,688)	38,226	Highways and transport services	45,295	(8,735)	36,560
7,451	(77)	7,374	Concessionary fares	7,617	(1)	7,616
1,649	(177)	1,472	Housing services	459	(193)	266
2,782	(1,509)	1,273	Central services to the public	2,899	(1,590)	1,309
3,282	(36)	3,246	Corporate and Democratic Core	3,571	(97)	3,474
4,426	(140)	4,286	Non Distributed Costs	1,772	(331)	1,441
845,594	**(481,142)**	**364,452**	**Cost of Services**	**855,251**	**(460,345)**	**394,906**
85,711	-	85,711	Other operating expenditure - Note 10	85,505	-	85,505
21,774	(2,876)	18,898	Financing and investment income and expenditure - Note 11	27,575	(3,159)	24,416
-	(445,264)	(445,264)	Taxation and non-specific grant income - Note 12	-	(430,257)	(430,257)
		23,797	**Deficit on Provision of Services**			**74,570**
		(23,198)	Surplus on revaluation of non-current assets - Note 24			(14,616)
		73,904	Actuarial losses on pension assets or liabilities - Note 43			58,751
		50,706	**Other Comprehensive Income and Expenditure**			**44,135**
		74,503	**Total Comprehensive Income and Expenditure**			**118,705**

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'.

1 April 2011 Restated £000	31 March 2012 Restated £000		Note	31 March 2013 £000
902,901	925,358	Property, Plant & Equipment	13	863,993
31	13	Heritage Assets	52	497
1,508	1,381	Investment Property	14	1,381
3,341	2,225	Intangible Assets	15	2,028
1	1	Long Term Investments	16	1
31,729	1,082	Long Term Debtors	18	652
939,511	**930,060**	**Long Term Assets**		**868,552**
179,603	271,132	Short Term Investments	16	270,719
1,950	4,918	Assets Held for Sale	20	1,423
4,417	4,511	Payments in Advance		4,382
961	-	Landfill Allowances	51	-
136	126	Inventories	17	111
27,407	32,141	Short Term Debtors	18	45,990
42,695	13,889	Cash and Cash Equivalents	19	17,267
257,169	**326,717**	**Current Assets**		**339,892**
(14,705)	(7,642)	Income in Advance	21	(18,025)
(1,304)	(5,643)	Short Term Borrowing	16	(7,055)
(13,057)	(18,129)	Bank overdraft and Accrued balance for third parties	19	(21,327)
(1,268)	(1,638)	Provisions	22	(1,070)
(81,882)	(80,963)	Short Term Creditors	21	(82,033)
(112,216)	**(114,015)**	**Current Liabilities**		**(129,510)**
(227,865)	(300,200)	Liabilities related to defined benefit pension schemes	43	(357,589)
(15,686)	(14,899)	Provisions	22	(16,943)
(241,262)	(264,261)	Long Term Borrowing	16	(262,943)
(32,085)	(4,836)	Capital Grants & Contributions Receipts in Advance	35	(4,038)
(30,731)	(96,234)	Other Long Term Liabilities	39	(93,794)
(547,629)	**(680,430)**	**Long Term Liabilities**		**(735,307)**
536,835	**462,332**	**Net Assets**		**343,627**
212,505	235,521	Usable Reserves	23	222,133
324,330	226,811	Unusable Reserves	24	121,494
536,835	**462,332**	**Total Reserves**		**343,627**

For details of the restatement see prior period adjustments at note 2a.

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2013 and its Comprehensive Income and Expenditure Statement for the year then ended.

Mo Hemsley,
Acting Chief Finance Officer, 10 September 2013

The Governance Committee approved the Statement of Accounts on 10 September 2013.

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.

2011/12 Restated £000		**2012/13 £000**
23,797	Net deficit on the provision of services	74,570
(164,318)	Adjustments to net deficit on the provision of services for non-cash movements	(165,797)
81,160	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	67,100
(59,361)	Net cash inflow from Operating Activities (Note 25)	(24,127)
114,048	Investing Activities (Note 26)	19,319
(19,495)	Financing Activities (Note 27)	4,628
35,192	Net increase / (decrease) in net cash and cash equivalents (Note 19)	(180)
(30,952)	Net Cash and cash equivalents at the beginning of the reporting period (Note 19)	4,240
4,240	**Net Cash and cash equivalents at the end of the reporting period (Note 19)**	**4,060**

For details of the restatement see prior period adjustments at note 2a.

The Net Cash and cash equivalents figures above include 'Cash and cash equivalents' and 'Bank overdraft and Accrued balance for third parties'. The overall balance at 31 March 2013 is a net cash overdrawn position of £4.060m.

1. Authorisation of the Statement of Accounts

Authorisation of Statement of Accounts - These accounts were authorised for issue by Mo Hemsley, Acting Chief Finance Officer, and the Statement of Accounts (approved on 10 September 2013) 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 2012/13 financial year and its position at the year-end of 31 March 2013. 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 2012/13 and the Service Reporting Code of Practice 2012/13, 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.

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 2012, the actuary assumed a discount rate of 2.2% real (4.8% 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 2013, the actuary has advised that a rate of 1.7% real (4.5% nominal) is appropriate.

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

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

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

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

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

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

ix. Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period for which the Council shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);

- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

x. Financial Instruments

Financial Liabilities

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

For 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 extinguishments. 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 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 requires 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 on disposal (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 on disposal (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 2012/13 (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 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 (usually up to 60 years)
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
Infrastructure land	Not depreciated as an infinite life expectancy
Community land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated until the asset becomes operational
Surplus Buildings	Individually assessed by valuers
Surplus Land	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 recognised losses 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 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 10.19% 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 – a 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.

Closed Landfill Sites

The Environment Agency's landfill permit requires restoration and after care of sites previously used for landfill. The Council continue to own a number of closed landfill sites and also retain responsibility for a number of sites that have been disposed of. Aftercare is usually required for a period of sixty years following the closure and restoration of the landfill site. Aftercare includes leachate management, gas management and environmental monitoring. The Council is required to recognise a provision as there is a legal present obligation arising from the past event of landfill. The amount recognised is the best estimate of the expenditure required to settle the obligation and is discounted to reflect the time value of money.

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. The Council does not purchase CRC allowances prospectively, nor allowances being held for trading.

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.

2a. Prior Period Adjustments

Opening balances and comparative amounts for the prior period have been restated to:

- Apply the change in accounting policy for Landfill retrospectively, which impact on both the Long and Short-term provisions.
- Amendment of a previous year misstatement of an amount of £1.696 million receivable from West Sussex County Council in respect of concessionary fares. Changes impact on the current asset and current liabilities, i.e., between the Debtors and cash equivalent (Accrued balance at bank and for third parties).
- Correct PFI liability and capital adjustment account balances due to a review and update of the Schools PFI model.
- Correct revaluation reserve and capital adjustment account balances in relation to revaluation losses on assets that had previously been incorrectly charged to the Comprehensive Income and Expenditure Statement.

Restatement of the 1 April 2011 Balance Sheet

Balance Sheet	**Adj**	**31 March 2011**	**Adjustments**	**1 April 2011 Restated**
		£000	**£000**	**£000**
Property, Plant & Equipment		902,901	-	902,901
Heritage Assets		31	-	31
Investment Property		1,508	-	1,508
Intangible Assets		3,341	-	3,341
Long Term Investments		1	-	1
Long Term Debtors		31,729	-	31,729
Long Term Assets		**939,511**	**-**	**939,511**
Short Term Investments		179,603	-	179,603
Assets Held for Sale		1,950	-	1,950
Payments in Advance		4,417	-	4,417
Landfill Allowances		961	-	961
Inventories		136	-	136
Short Term Debtors	4	26,093	1,314	27,407
Cash and Cash Equivalents		42,695	-	42,695
Current Assets		**255,855**	**1,314**	**257,169**
Income in Advance		(14,705)	-	(14,705)
Short Term Borrowing		(1,304)	-	(1,304)
Accrued balance at Bank	4	(11,743)	(1,314)	(13,057)
Provisions	1	(653)	(615)	(1,268)
Short Term Creditors		(81,882)	-	(81,882)
Current Liabilities		**(110,287)**	**(1,929)**	**(112,216)**
Pension Fund Liability		(227,865)	-	(227,865)
Provisions	1	(5,601)	(10,085)	(15,686)
Long Term Borrowing		(241,262)	-	(241,262)
Capital Grants Receipts in Advance		(32,085)	-	(32,085)
Other Long Term Liabilities	2	(32,301)	1,570	(30,731)
Long Term Liabilities		**(539,114)**	**(8,515)**	**(547,629)**
Net Assets		**545,965**	**(9,130)**	**536,835**
Usable Reserves				
Capital Receipts		6,372	-	6,372
Earmarked - General		179,470	-	179,470
Earmarked - Revenue Grants		5,605	-	5,605
County Fund Balances		7,540	-	7,540
School Balances		13,518	-	13,518
Total Usable Reserves		**212,505**	**-**	**212,505**

Unusable Reserves				
Revaluation Reserve	3	126,278	(388)	125,890
Capital Adjustment Account	1,2,3	443,752	(8,742)	435,010
Financial Instruments Adjustments Account		(1,476)	-	(1,476)
Collection Fund Adjustment Account		1,404	-	1,404
Accumulated Absences Account		(8,633)	-	(8,633)
Pensions Reserve		(227,865)	-	(227,865)
Total Unusable Reserves		**333,460**	**(9,130)**	**324,330**
Total Reserves		**545,965**	**(9,130)**	**536,835**

Adjustments to the Balance Sheet at 1 April 2011

	Closed Landfill Sites Adj 1	Schools PFI Adj 2	Revaluation Loss Reversals Adj 3	Concessionary Fares Adj 4	Total
	£000	£000	£000	£000	£000
Short Term Debtors	-	-	-	1,314	1,314
Current Assets	-	-	-	1,314	1,314
Accrued balance at Bank	-	-	-	(1,314)	(1,314)
Provisions	(615)	-	-	-	(615)
Current Liabilities	(615)	-	-	(1,314)	(1,929)
Provisions	(10,085)	-	-	-	(10,085)
Other Long Term Liabilities	-	1,570	-	-	1,570
Long Term Liabilities	(10,085)	1,570	-	-	(8,515)
Net Assets	**(10,700)**	**1,570**	**-**	**-**	**(9,130)**
Unusable Reserves					
Revaluation Reserve	-	-	(388)	-	(388)
Capital Adjustment Account	(10,700)	1,570	388	-	(8,742)
Total Unusable Reserves	**(10,700)**	**1,570**	**-**	**-**	**(9,130)**
Total Reserves	**(10,700)**	**1,570**	**-**	**-**	**(9,130)**

Restatement of the 31 March 2012 Balance Sheet

Balance Sheet	Adj	31 March 2012	Adjustments	31 March 2012 Restated
		£000	£000	£000
Property, Plant & Equipment		925,358	-	925,358
Heritage Assets		13	-	13
Investment Property		1,381	-	1,381
Intangible Assets		2,225	-	2,225
Long Term Investments		1	-	1
Long Term Debtors		1,082	-	1,082
Long Term Assets		**930,060**	**-**	**930,060**
Short Term Investments		271,132	-	271,132
Assets Held for Sale		4,918	-	4,918
Payments in Advance		4,511	-	4,511
Inventories		126	-	126
Short Term Debtors	7	30,444	1,697	32,141
Cash and Cash Equivalents		13,889	-	13,889
Current Assets		**325,020**	**1,697**	**326,717**
Income in Advance		(7,642)	-	(7,642)
Short Term Borrowing		(5,643)	-	(5,643)
Accrued balance at Bank	7	(16,432)	(1,697)	(18,129)

Provisions	5	(1,023)	(615)	(1,638)
Short Term Creditors		(80,963)	-	(80,963)
Current Liabilities		**(111,703)**	**(2,312)**	**(114,015)**
Pension Fund Liability		(300,200)	-	(300,200)
Provisions	5	(5,099)	(9,800)	(14,899)
Long Term Borrowing		(264,261)	-	(264,261)
Capital Grants Receipts in Advance		(4,836)	-	(4,836)
Other Long Term Liabilities	6	(95,735)	(499)	(96,234)
Long Term Liabilities		**(670,131)**	**(10,299)**	**(680,430)**
Net Assets		**473,246**	**(10,914)**	**462,332**
Usable Reserves				
Capital Receipts		7,925	-	7,925
Capital Grants Unapplied Account		53,916	-	53,916
Earmarked - General		140,849	-	140,849
Earmarked - Revenue Grants		7,772	-	7,772
County Fund Balances		8,303	-	8,303
School Balances		16,756	-	16,756
Total Usable Reserves		**235,521**	**-**	**235,521**
Unusable Reserves				
Revaluation Reserve		121,334	(388)	120,946
Capital Adjustment Account	5,6	421,810	(10,526)	411,284
Financial Instruments Adjustments Account		(23)	-	(23)
Collection Fund Adjustment Account		2,000	-	2,000
Accumulated Absences Account		(7,196)	-	(7,196)
Pensions Reserve		(300,200)	-	(300,200)
Total Unusable Reserves		**237,725**	**(10,914)**	**226,811**
Total Reserves		**473,246**	**(10,914)**	**462,332**

Adjustments to the Balance Sheet at 31 March 2012

	Total adjustments at at 1 April 2011 Adj 1-4 £000	**Closed Landfill Sites Adj 5 £000**	**Schools PFI Adj 6 £000**	**Concessionary Fares Adj 7 £000**	**Total £000**
Short Term Debtors	1,314	-	-	383	1,697
Current Assets	1,314	-	-	383	1,697
Accrued balance at Bank	(1,314)	-	-	(383)	(1,697)
Provisions	(615)	-	-	-	(615)
Current Liabilities	(1,929)	-	-	(383)	(2,312)
Provisions	(10,085)	285	-	-	(9,800)
Other Long Term Liabilities	1,570	-	(2,069)	-	(499)
Long Term Liabilities	(8,515)	285	(2,069)	-	(10,299)
Net Assets	**(9,130)**	**285**	**(2,069)**	**-**	**(10,914)**
Unusable Reserves					
Revaluation Reserve	(388)	-	-	-	(388)
Capital Adjustment Account	(8,742)	285	(2,069)	-	(10,526)
Total Unusable Reserves	**(9,130)**	**285**	**(2,069)**	**-**	**(10,914)**
Total Reserves	**(9,130)**	**285**	**(2,069)**	**-**	**(10,914)**

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- IAS 1 Presentation of Financial Statements – The changes require authorities to disclose separately the gains or losses re-classifiable into the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure required.
- Service Concession Arrangements, clarifications for the recognition criteria for assets under construction or intangible assets – There are no non-operational PFI schemes, therefore no impact on the Statement of Accounts.
- IAS 12 Income taxes – This change in the accounting policy particularly affects investment properties. It is not considered that this change will affect the Statement of Accounts, as it only really impacts on groups where there is corporation tax payable.
- IFRS 7 Financial Instruments: Disclosures – The change in accounting policy is in relation to the offsetting of financial assets and liabilities. Within the cash and cash equivalents line on the balance sheet there is a bank overdraft, note 19 provides a breakdown of this item.
- There have been several significant changes in relation IAS 19 Employee Benefits. IAS19 is changing for accounting years starting on or after 1 January 2013 and this will affect the budgeted pension expense for the next financial year. The key change affecting LGPS employers relates to the expected return on assets. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to profit and loss, however from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the Expected Return on Assets assumption). There is no impact of this change on the accounts covering the 2012/13 financial year. The changes will be implemented in the 2013/14 financial year, so the projected 2013/14 pension expense shown will include this change. The changes to IAS19 will be retrospectively applied for the 2012/13 financial year, at the time the 2013/14 accounting statements are prepared. This is in accordance with IAS 8. Essentially, this means that the 2012/13 Comprehensive Income and Expenditure Statement disclosed in the 2013/14 accounts will be rebased onto the IAS19 (Revised) reporting basis. The effect of the 2012/13 Comprehensive Income and Expenditure Statement will be an increase of £8.69m, although there will be no impact on the general fund as there will be a compensating adjustment in the Movement in Reserves Statement.
- IFRS 13 – Fair value measurement - The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement.

4. 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. 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 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 (Financial guarantee contracts). 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 for ensuring the Council continues 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 within the 2014/15 Code of Practice. In the meantime, the Council recognises Schools in line with the provisions of the 2012/13 Code of Practice, and schools are recognised on the balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council has the ability to employ the staff of the school and is able to set the admission criteria.
  There are currently 5 types of schools within the County:
  - Community schools
  - Voluntary controlled (VC) schools
  - Voluntary Aided (VA) schools
  - Foundation/Trust schools
  - Academy schools

  Community schools' staff are appointed by the Council and the Council sets the admission criteria. These schools are, therefore, recognised on the Council's Balance Sheet.

  Voluntary controlled schools' staff are also appointed by the Council and the Council sets the admission criteria. However, the legal ownership of the school land and buildings belongs to a charity, normally a religious body. Regardless of the legal ownership of the school, the Council considers that it is receiving the economic benefit/service potential of the school and the schools are recognised on the Council's Balance sheet.

  Foundation Trust, Voluntary aided, and Academy schools staff are appointed by the schools' governing body, who also set the admission criteria. Therefore, the Council does not receive the economic benefit or service potential of these schools and does not recognise them on the Council's balance sheet.

  The table below illustrates the number and type of schools within the borough split by Primary, Secondary and Special schools.

Type of School	**Primary Schools**	**Secondary Schools**	**Special Schools**	**Total Schools**
Community	69	11	10	90
Voluntary Controlled	48	2	-	50
Voluntary Aided	28	2	-	30
Trust	3	-	-	3
Academies	4	11	-	15
Total	**152**	**26**	**10**	**188**

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

- As at 31 March 2013 the Council's account with RBS Money Market Fund was the only one held for cash flow requirement reasons and is included in the cash and cash equivalents. 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. The Council's policy on the classification of cash and cash equivalent, and investments, is set out in the accounting policy note iv.

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

The accounting statements contain 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 2013 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.	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.	The total depreciation charged in 2012/13 is £35.9m and the net book value of property, plant and equipment at 31 March 2013 is £863.993m. If the useful life of assets reduces, 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 £1.05m for every 1 year that useful lives had to be reduced.
	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 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 2012/13 to the Deficit on Provision of Services is £31.1m and £3.5m 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 allowance. The decrease in allowance for bad debts set aside in 2012/13 is £129,813.
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 actuary makes 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 2012/13, the Council’s actuary advised that the net pension’s liability has increased from £300.2m at the start of the year to £357.6m at 31 March 2013. Note 43 to the Accounting Statements provides detailed information.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 & Reserve - This estimate of the potential liability is provided by a qualified professional actuary (JLT Public Sector Risks) based on outstanding claims already submitted (provision) and an estimate of potential claims that have yet to be made (reserve). 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 22.
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 44.
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 and budget assumptions.
Decommissioning landfill sites	The Council has 19 closed landfill sites that might require restoration and aftercare. An accounting model has been developed to determine the required provision for these future costs taking into consideration the annual costs relating to leachate removal and water quality monitoring. The Council has a legal obligation to restore, monitor and maintain landfill sites.	The Code requires that the costs have to be balanced by a provision, which meets the requirements of IAS 37. The Council has set aside £10.1m provisions (set out in Note 22), which it believes are appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.

6. 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 asset returns on the Fund in the year to 31 March 2013 were better than expected for the Council. The increase in the Fund's assets due to investment performance was estimated to be £115.9m (14.7%) per annum, compared to the expected return on assets at the start of the year of £46.6m (5.9%) per annum.

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 2012/13 is £7.6m, (£7.4m in 2011/12), which is included in net expenditure on Highways and Transport. The statutory scheme offers free off-peak travel between 9:00am and 11:00pm Monday to Friday and all day at weekends and on public holidays. The scheme is for residents who are eligible older people or those with a qualifying disability.

Environmental & Regulatory Services – In 2012/13, waste assets were revalued downwards by £27.8m (£0.2m in 2011/12) and charged to the waste disposal service (Note 39 provides more details). The revaluation losses are not proper charges to the General Fund and so are transferred out to the Capital Adjustment Account via the Movement in Reserves Statement. Any future revaluation gains on these assets can be used to reverse the previous revaluation decrease.

The Council has disposed of the following land, buildings and equipment from its Balance Sheet as eight Schools obtained academy status during 2012/13. This is included within losses on disposals of non-current assets of £84.9m (note 10). These assets were transferred to the academies for no consideration and the amounts are recognised as losses on disposal by the Council.

School	Primary (P) or Secondary (S) School	£000
Heron Park, Eastbourne	P	2,766
King Offa, Bexhill	P	1,692
Sidley (Glenleigh), Bexhill	P	1,979
Oakwood, Eastbourne	P	3,281
Beacon, Crowborough	S	29,961
Bexhill High, Bexhill	S	30,802
The Cavendish, Eastbourne	S	5,784
Rye College, Rye	S	8,128
Total		**84,393**

7. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Acting Chief Finance Officer on 10 September 2013. Events taking place after this date are not reflected in the financial statements. Where events taking place before this date provide information about conditions existing at 31 March 2013, the figures in the accounting statements have been adjusted in all material respects to reflect the impact of this information.

The financial statements have not been adjusted for the following events that took place after 31 March 2013 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 – It is anticipated that the following schools in Hastings may convert to Academy status during 2013/14 – West St Leonards Primary, Dudley Infants, Redlake Primary , Elphinstone Primary, Pebsham Primary, Helenswood Secondary, and William Parker Secondary. Under current accounting conventions, the value of their buildings will be written out of the Council's balance sheet at the date of conversion.

- When the new arrangements for the retention of business rates came into effect on 1 April 2013, the Council assumed liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts that were paid over to the government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the Council, but would have been transferred to the government. The Council will recognise a provision for its respective share of the liability as at 1 April 2013 (in the 2013/14 accounting statements). As this liability does not exist at the Balance Sheet date, the Council has not amended the 2012/13 accounting statements and therefore reports this as a non adjusting post balance sheet event. The estimated share of the Council's level of liability on 1 April 2013 is –

Authorities	£000
Hastings Borough Council	54
Lewes District Council	90
Rother District Council	112
Eastbourne Borough Council	85
Total	**341**

8. 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.

2012/13	**Usable Reserves**			
	County Fund Balance	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£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	67,195	-	-	(67,195)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the Comprehensive Income Expenditure Statement	(2,066)	-	-	2,066
Movements in the market value of Investment Properties	6	-		(6)
Amortisation of intangible assets	968	-	-	(968)
Capital grants and contributions applied	(61,471)	-	-	61,471
Revenue expenditure funded from capital under statute	39,726	-	-	(39,726)
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	88,220	-	-	(88,220)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(15,987)	-	-	15,987
Capital expenditure charged against the General Fund	(51,742)	-	-	51,742
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(2,682)	-	2,682	-
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	(3,297)	3,297	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(674)	-	674
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	-	-	-	-
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	30,463	-	-	(30,463)
Employer's pensions contributions and direct payments to pensioners payable in the year	(31,825)	-	-	31,825
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,217)	-	-	1,217

2012/13	Usable Reserves			
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
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	(414)	-	-	414
Total Adjustments	**55,877**	**2,623**	**2,682**	**(61,182)**

2011/12	Usable Reserves			
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£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 Comprehensive Income Expenditure Statements	(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)
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	(44,131)	-	-	44,131
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)	-	53,916	-
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
Adjustment primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	30,145	-	-	(30,145)
Employer's pensions contributions and direct payments to pensioners payable in the year	(31,714)	-	-	31,714

2011/12	Usable Reserves			
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	**£000**	**£000**	**£000**
Adjustment 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	**(8,656)**	**1,553**	**53,916**	**(46,813)**

9. 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 2012/13.

Earmarked Reserves	**Balance at 1 April 2011**	**Transfers Out 2011/12**	**Transfers In 2011/12**	**Balance at 31 March 2012**	**Transfers Out 2012/13**	**Transfers In 2012/13**	**Balance at 31 March 2013**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Capital Programme	**42,400**	(28,885)	15,605	**29,120**	(48,208)	45,372	**26,284**
Corporate Waste	**100,720**	(39,010)	8,755	**70,465**	(38,387)	13,766	**45,844**
Service Development	**2,317**	(403)	1,130	**3,044**	(963)	2,053	**4,134**
Financing	**5,126**	(3,556)	9,261	**10,831**	(1,838)	4,824	**13,817**
Infrastructure	**4,399**	(544)	2,386	**6,241**	(3,303)	3,350	**6,288**
Insurance	**8,812**	(4,100)	1,907	**6,619**	(3,372)	1,384	**4,631**
General Risk	**500**	-	-	**500**	(3,712)	6,879	**3,667**
Schools	**558**	(51)	145	**652**	(21)	2,712	**3,343**
Service	**14,359**	(14,004)	12,799	**13,154**	(10,149)	3,291	**6,296**
Transformation	**279**	(56)	-	**223**	-	3,401	**3,624**
Sub-Total	**179,470**	**(90,609)**	**51,988**	**140,849**	**(109,953)**	**87,032**	**117,928**
Revenue Grants and Contributions	**5,605**	(5,605)	7,772	**7,772**	(7,772)	11,931	**11,931**
Total	**185,075**	**(96,214)**	**59,760**	**148,621**	**(117,725)**	**98,963**	**129,859**

Types of Reserve

Capital Programme reserve — To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.

Corporate Waste reserve — 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.

Service development — This fund is to enable the Council to respond to the most urgent corporate service priorities

reserve	along with enabling the development of services as required. The reserve includes some specific reserves: • High Weald -To provide for future spending commitments in the High Weald Area of Outstanding Natural Beauty • On street car parking • Claverham Adult Education • ACRES - The 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 • Public Health Re-Commissioning • Roundabouts sponsorship • Schools Intervention Support
Financing reserve	This is to enable the effective management of the medium-term financial strategy by managing cash flow across financial years; along with providing funding to invest to save and attract other sources of income. This includes previous reserves held for redundancies, waste and minerals, strategies and invest to save.
Infrastructure reserve	This fund is to enable the Council to fund infrastructure necessary to enable development across the County. This includes – • ICT corporate system development and cross organisational developments. • Strategic Economic Development - To provide support for Council projects that promote economic development and an increase in businesses, including providing guarantees. • CBOSS - To meet the cost of developing the corporate back office systems and services.
Insurance reserve	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.
General Risk reserve	To manage the potential financial consequences of risks recognised in the Council's risk management arrangements. This aims to cover risks that the Council may need to manage the potential financial consequences, some of which will be while remedial action is taken to remedy the situation e.g. short term. This has due regard to the strategic risk registers, and includes previous specific service risk reserves held for Adult Social Care service risks; extreme weather risks.
Schools reserve	Balances in respect of delegated school budgets, extended schools and virtual college.
Service reserves	Funds set aside for specific purposes in respect of individual Council services. A proportion of departmental underspends are held in the Corporate Service Reserve and may be used for projects that are focussed on the corporate priorities as set out within the Council's Business Plan.
Transformation reserve	This funds the transformation programme to change, protect and improve Council services. The Council is in the process of implementing a programme office and it is likely that many of the programmes being managed through that office will be funded through this reserve.
Revenue Grants and Contributions reserve	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.

Balances held by Schools under a scheme of delegation

The Schools balances reserve holds the balances held by the Council's schools under a scheme of delegation. These reserves are held by each individual school and are used to provide education to the pupils of that school. They are not used for any other purpose. Additional information on Dedicated School Grants and Schools Balances are detailed within Note 34.

The following table shows the level of reserves held by the Schools:

	Balance at 1 April 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Balances held by Schools	**13,518**	**(2,783)**	**6,021**	**16,756**	**(539)**	**13**	**16,230**

10. Other Operating Expenditure

	2011/12	2012/13
	£000	£000
Ashdown Forest Conservators	72	151
Sussex Sea Fisheries	300	300
Environment Agency (flood defence)	131	131
Losses on the disposal of non-current assets	85,208	84,923
Total	**85,711**	**85,505**

Note - The 2012/13 Losses on the disposal of non-current assets figure of £84.92m (£85.21m 2011/12) includes the removal of eight schools from the Balance Sheet that have attained Academy status. Details are included in note 6.

11. Financing and Investment Income and Expenditure

	2011/12	2012/13
	£000	£000
Interest payable and similar charges	19,940	22,010
Pensions interest cost and expected return on pensions assets	1,707	5,559
Interest receivable and similar income	(2,709)	(2,856)
Reduction in Fair Value of Investment Properties	127	6
Surplus on Trading Undertakings	(167)	(303)
Total	**18,898**	**24,416**

12. Taxation and Non Specific Grant Income

	2011/12	2012/13
	£000	£000
Council tax income	240,900	243,127
Non domestic rates	89,997	112,266
Revenue Support Grant	27,818	2,176
New Home Bonus	375	831
Council Tax Freeze Grant	5,981	6,021
Local Support Services Grant	1,586	1,684
Capital grants and contributions	78,607	64,152
Total	**445,264**	**430,257**

13. Property, Plant, and Equipment

Movements in 2012/13:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2012	671,734	102,441	263,857	1,760	9,812	21,484	1,071,088	145,483
Additions	16,030	2,423	26,199	156	1	28,688	73,497	48
Additions – Pebsham HWRS - PFI	973	-	-	-	-	-	973	973
Revaluation increases recognised in the Revaluation Reserve	12,907	4	-	-	232	-	13,143	486
Revaluation decreases recognised in the Revaluation Reserve	(3,425)	(23)	-	-	(74)	-	(3,522)	-
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	1,928	-	-	-	137	-	2,065	-
Revaluation decreases recognised in the deficit on the Provision of Services	(33,430)	(13)	-	-	(373)	-	(33,816)	(30,480)
Derecognition – disposals	(525)	(206)	-	-	(277)	-	(1,008)	-
Derecognition – academy & trust schools	(74,172)	(15,359)	-	-	(1,951)		(91,482)	-
Assets reclassified within PPE	(61,359)	62,428	-	-	1,875	(2,944)	-	2,006
Assets reclassified (to)/from Held for Sale	1,319	-	-	-	(367)	-	952	-
Assets reclassified to Heritage Assets	-	-	-	-	(644)	-	(644)	-
Other movements in cost or valuation	-	-	-	-	-	-	-	(490)
Other movements in cost or valuation – assets under construction	-	-	-	-	-	(68)	(68)	-
At 31 March 2013	**531,980**	**151,695**	**290,056**	**1,916**	**8,371**	**47,160**	**1,031,178**	**118,026**
Accumulated Depreciation and Impairment								
at 1 April 2012	(29,295)	(21,504)	(94,341)	-	(590)	-	(145,730)	(3,875)
Depreciation charge	(15,292)	(8,925)	(11,504)	-	(183)	-	(35,904)	(4,159)
Depreciation written out to the Revaluation Reserve	4,698	229	-	-	62	-	4,989	1,608
Impairment losses recognised in the deficit on the Provision of Services	2,613	17	-	-	56	-	2,686	-
Assets reclassified within PPE	483	(397)	-	-	(86)	-	-	-
Assets reclassified to Held for Sale	-	-	-	-	50	-	50	-

Movements in 2012/13:	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*
Derecognition – disposals	32	-	-	-	8	-	40	-
Derecognition - Academy & Trust Schools	3,784	2,815	-	-	85	-	6,684	-
Other movements	-	-	-	-	-	-	-	490
At 31 March 2013	**(32,977)**	**(27,765)**	**(105,845)**	**-**	**(598)**	**-**	**(167,185)**	**(5,936)**
Net Book Value								
at 31 March 2013	**499,003**	**123,930**	**184,211**	**1,916**	**7,773**	**47,160**	**863,993**	**112,090**
at 31 March 2012	**642,439**	**80,937**	**169,516**	**1,760**	**9,222**	**21,484**	**925,358**	**141,608**

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*
	£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 schools	(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)	-

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*
Other movements in cost or valuation – assets under construction	4,618	-	-	-	-	(4,618)	-	-
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	-
Impairment losses recognised in the Deficit on the Provision of Services	1,710	562	-	-	-	-	2,272	-
Impairment reversals 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**

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, surplus land 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 five year period, 2013/14 to 2017/18, the Council is planning to spend a gross capital expenditure of £297m. A large part of this, some £84m 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 2013/14 the council plans to spend £171m, of which £53m is supported by scheme specific resources.

Having adjusted for actual outturn in 2012/13, slippage on projects and for provisions where there is no on-going commitment, the gross commitment profiles for schemes in progress at 1 April 2013 are shown below:

2013/14	2014/15	2015/16	Total
£100.9m	£42m	£5.9m	**£148.8m**

Examples of the gross costs to the Council of completing some of the larger projects already underway at 31 March 2013 include:

Department/Scheme	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
Adult Social Care				
Warwick House	4.8	-	-	4.8
Governance and Community Services				
Hastings Library	5.1	-	-	5.1
Children's Services				
Etchingham School (see note below)	5.2	-	-	5.2
Economy, Transport & Environment				
Broadband (see note below)	7.6	17.8	-	25.4
Bexhill to Hastings Link Road (see note below)	43.1	24.0	5.9	73.0

Children's Services
There is a political commitment to Etchingham School at a net cost of £5.2m. Etchingham is a 2 year project, which will improve on the current premises and provide a modern replacement school and a first class learning environment with the aim to reduce revenue costs and increase energy efficiency.

Economy, Transport & Environment
There is a political commitment to the Broadband, at a net cost of £14.8m to ESCC and the Bexhill to Hastings Link Road at a net cost of £27.1m.

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 surplus assets, 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.

Non-operational land and buildings are valued at the same time and in the same way as operational assets.

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	-	32,378	-	32,378
Valued at fair value in:				
31 March 2013	130,020	58,136	2,209	190,365
31 March 2012	78,106	26,414	1,690	106,210
31 March 2011	148,623	34,767	-	183,390
31 March 2010	98,667	-	1,211	99,878
31 March 2009	76,412	-	3,259	79,671
Total Current Value	**531,828**	**151,695**	**8,369**	**691,892**

14. 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:

	2011/12	2012/13
	£000	**£000**
Rental income from investment property	238	212
Total	**238**	**212**

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 valuers have carried out investment property valuations. The following table summarises the movement in the fair value of investment properties over the year:

	2011/12	2012/13
	£000	**£000**
Balance at start of the year	1,508	1,381
Net gains from fair value adjustments (through revaluation reserve)	-	6
Net losses from fair value adjustments(through the Comprehensive Income and Expenditure Statement	(127)	(6)
Balance at end of the year	**1,381**	**1,381**

15. 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.

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 £0.968m charged to revenue in 2012/13 was charged to the ICT – Corporate Resources cost centre and then absorbed as an overhead across all the service headings in the Cost 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:

	2011/12	2012/13
	£000	**£000**
Balance at start of year:		
Gross carrying amounts	9,206	9,603
Accumulated amortisation	(5,865)	(7,378)
Net carrying amount at start of year	**3,341**	**2,225**
Purchases	397	680
Disposals*	-	91
Amortisation for the period	(1,513)	(968)
Net carrying amount at end of year	**2,225**	**2,028**
Comprising:		
Gross carrying amounts	9,603	10,374
Accumulated amortisation	(7,378)	(8,346)

	2011/12	2012/13
	£000	£000
	2,225	**2,028**

*The disposal relates to the write off of depreciation for a replacement Human Resource Management System (HRMS).

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

	Carrying Amount		Remaining Amortisation (Years)
	31 March 2012	31 March 2013	
Description	£000	£000	
New Microsoft Enterprise Agreement	126	101	4
SAP Software	1,686	859	1
ROCS ICT - Software	263	176	2
HRMS Financials	150	275	9
Desktop Anywhere	-	617	7

- New Microsoft Enterprise Agreement, which offers a predictable and affordable annual payment that is fixed and also provides the flexibility to adapt to changing and different user requirements, full access to the latest Microsoft Enterprise software products.
- 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.
- Desktop Anywhere – Remote access servers.

16. Financial Instruments

Categories of Financial Instruments

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

	Long term			Current		
	1 April 2011 Restated	31 March 2012 Restated	31 March 2013	1 April 2011 Restated	31 March 2012 Restated	31 March 2013
	£000	£000	£000	£000	£000	£000
Financial Assets						
Investments						
Loans and receivables	1	1	1	179,603	271,132	270,719
Cash and Cash Equivalents	-	-	-	42,695	13,889	17,267
Debtors						
Loans and receivables	773	721	652	18,413	21,199	33,425
Total Financial Assets	**774**	**722**	**653**	**240,711**	**306,220**	**321,411**

	Long term			Current		
	1 April 2011 Restated	31 March 2012 Restated	31 March 2013	1 April 2011 Restated	31 March 2012 Restated	31 March 2013
	£000	£000	£000	£000	£000	£000
Financial Liabilities						
Borrowings						
Financial liabilities at amortised cost	(241,262)	(264,261)	(262,943)	(1,304)	(5,643)	(7,055)
Cash and Cash Equivalents	-	-	-	(13,057)	(18,129)	(21,327)
Other Long Term Liabilities						
PFI and finance lease liabilities at amortised cost	(30,731)	(96,179)	(93,739)	-	-	-
Financial Guarantees at amortised cost	-	(54)	(54)	-	-	-
Long Term Creditors at amortised cost	-	(1)	(1)	-	-	-
Total Other Long Term Liabilities	**(30,731)**	**(96,234)**	**(93,794)**	**-**	**-**	**-**
Creditors						
Financial liabilities at amortised cost	-	-	-	(66,124)	(67,707)	(67,832)
Total Financial Liabilities	**(271,993)**	**(360,495)**	**(356,737)**	**(80,485)**	**(91,479)**	**(96,214)**

For details of the restatement see prior period adjustments at note 2a.

Income, Expense, Gains and Losses

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)**

2012/13	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	(22,010)	-	(22,010)
Total expense in Deficit on the Provision of Services	**(22,010)**	-	**(22,010)**
Interest income	-	2,856	2,856
Total income in Deficit on the Provision of Services	-	**2,856**	**2,856**
Net gain / (loss) for the year	**(22,010)**	**2,856**	**(19,154)**

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 2013 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:

	1 April 2011		31 March 2012		31 March 2013	
	Carrying amount Restated	Fair value Restated	Carrying amount Restated	Fair value Restated	Carrying amount	Fair value
	£000	£000	£000	£000	£000	£000
Borrowings	(242,566)	(271,815)	(269,904)	(337,513)	(269,998)	(345,171)
Cash and Cash Equivalents	(13,057)	(13,057)	(18,129)	(18,129)	(21,327)	(21,327)
PFI and Finance Lease Liabilities at amortised cost	(30,731)	(30,731)	(96,179)	(96,179)	(93,739)	(93,739)
Financial Guarantee	-	-	(54)	(54)	(54)	(54)
Long Term Creditors	-	-	(1)	(1)	(1)	(1)
Current Creditors	(66,124)	(66,124)	(67,707)	(67,707)	(67,832)	(67,832)
Total	**(352,478)**	**(381,727)**	**(451,974)**	**(519,583)**	**(452,951)**	**(528,124)**

The fair value of the liabilities is greater 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. At 31 March 2013, low discount rates would add additional premiums to restructure existing debt because the rate on the debt to be repaid is more than the current rate on borrowing for the same maturity period.

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

Financial Assets: Loans and Receivables

	1 April 2011		31 March 2012		31 March 2013	
	Carrying amount Restated	Fair value Restated	Carrying amount Restated	Fair value Restated	Carrying amount	Fair value
	£000	£000	£000	£000	£000	£000
Investments	179,604	179,604	271,133	271,133	270,720	270,720
Cash and Cash Equivalents	42,695	42,695	13,889	13,889	17,267	17,267
Debtors	19,186	19,186	21,920	21,920	34,077	34,077
Total	**241,485**	**241,485**	**306,942**	**306,942**	**322,064**	**322,064**

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.

17. Inventories

	Consumable Stores	
	2011/12	2012/13
	£000	£000
Balance outstanding at start of year	**136**	**126**
Purchases	471	460
Recognised as an expense in the year	(481)	(475)
Balance outstanding at year-end	**126**	**111**

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.

18. Current and Long Term Debtors

	1 April 2011 Restated £000	31 March 2012 Restated £000	31 March 2013 £000
Current Debtors			
Central Government Bodies	5,932	5,152	15,097
Other Local Authorities*	8,500	13,017	14,252
NHS Bodies*	830	3,634	4,178
Other entities and individuals	12,145	10,338	12,463
Total	**27,407**	**32,141**	**45,990**

	1 April 2011 £000	31 March 2012 £000	31 March 2013 £000
Long Term Debtors			
Waste PFI Prepayment	30,956	361	-
Other	773	721	652
Total	**31,729**	**1,082**	**652**

*The prior year comparative figures have been restated on a basis consistent with 2012/13 and to adjust for concessionary fare debtor, previously treated as accrued balance for third parties within cash equivalents in 2011/12.

Allowance for debts impairment - The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. A reduction in the provision for bad debt adjustment of £129,813 was made in 2012/13, (£167,800 in 2011/12) bringing the total allowance for impairment to £738,612 at 31 March 2013. 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 2013 the Council's share of these allowances amounts to £8.582m (£7.902m at 31 March 2012) out of its share of Council Tax debts totalling £14.253m (£13.680m at 31 March 2012).

19. Cash and Cash Equivalents, Bank overdraft and accrued balance for third parties

	1 April 2011 Restated	31 March 2012 Restated	31 March 2013	Movement
	£000	£000	£000	£000
Cash in hand	196	173	161	(12)
Short-term deposits	42,500	13,716	17,106	3,390
Total Cash and Cash Equivalents	**42,695**	**13,889**	**17,267**	**3,378**
Imputed cash adjustment for National Park Authority and Primary Care Trusts	(140)	(700)	(139)	561
Bank overdraft	(6,733)	(5,295)	(8,510)	(3,215)
Accrued balance at bank and for third parties	(6,184)	(12,134)	(12,678)	(544)
Total bank overdraft and accrued balance for third parties	**(13,057)**	**(18,129)**	**(21,327)**	**(3,198)**
Net cash and cash equivalent balances / (overdrawn)	**29,638**	**(4,240)**	**(4,060)**	**180**

*The prior year comparative figures have been restated on a basis consistent with 2012/13 and to adjust for concessionary fare debtor, previously treated as accrued balance for third parties within cash equivalents in 2011/12.

Note 30 sets out some details of the arrangements under which the Council 'hosts' the finances of pooled arrangements for Pooled Budgets (with Primary Care Trusts). 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 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, which results in a notional overdrawn balance because cheques and BACS payments are recorded when they are drawn, rather than when they are presented at the bank.

The accrued balance for third parties shown above was made up as follows:

	1 April 2011 Restated	31 March 2012 Restated	31 March 2013
	£000	£000	£000
East Sussex Fire Authority	(7,030)	(11,924)	(12,380)
Trust Funds	(195)	(210)	(298)
East Sussex Pension Fund	1,041	-	-
Accrued balance at bank and for third parties	**(6,184)**	**(12,134)**	**(12,678)**

The pooled bank balances at 31 March 2013 include £20.2m (£21.6m at 31 March 2012) relating to bank accounts operated by schools under local management arrangements.

20. Assets held for Sale

Current Assets Held for Sale	2011/12	2012/13
	£000	£000
Balance outstanding at start of year	1,950	4,918
Assets newly classified as held for sale:		
Property, Plant and Equipment	2,179	675
Additions*	696	(16)
Revaluation gains recognised in Revaluation Reserve	482	-
Revaluation losses recognised in Provision of Services	(28)	-
Assets declassified as held for sale:		
Property, Plant and Equipment	-	(1,677)
Assets sold	(361)	(2,477)
Balance outstanding at year end	**4,918**	**1,423**

*The additions amount of £16,000 in 2012/13 is in relation to changes in Ore Centre value.

21. Creditors and Income in Advance

Creditors

	31 March 2012 £000	31 March 2013 £000
Central Government Bodies	8,786	7,714
Other Local Authorities	5,084	8,088
NHS Bodies	60	1,762
Other creditors and accruals	67,033	64,469
Total	**80,963**	**82,033**

Income in Advance

	31 March 2012 £000	31 March 2013 £000
Other Local Authorities	3,112	2,751
NHS Bodies	-	11,593
Entities and Individuals	-	1,440
Other Contributions	4,530	2,241
Total	**7,642**	**18,025**

22. 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 Restated £000**	**31 March 2012 Restated £000**	**Additional provisions £000**	**Amounts used £000**	**Unwinding of Discount £000**	**31 March 2013 £000**
Insurance claims	4,679	4,299	136	(245)	-	4,190
Adult Social Care legal costs	122	-	-	-	-	-
Section 117 liabilities	800	800	-	-	-	800
Municipal Mutual Insurance (MMI)	-	-	2,247	-	-	2,247
Closed Landfill Sites*	10,085	9,800	-	(232)	138	9,706
Total	**15,686**	**14,899**	**2,383**	**(477)**	**138**	**16,943**

Current Provisions	**1 April 2011 Restated £000**	**31 March 2012 Restated £000**	**Additional provisions £000**	**Amounts used £000**	**Unwinding of Discount £000**	**31 March 2013 £000**
Adult Social Care legal costs	78	122	-	-	-	122
Adult Social Care Redundancies	337	510	-	(409)	-	101
Governance & Community Services Redundancy	34	92	-	-	-	92
School Restructure	204	-	-	-	-	-
Carbon Reduction Commitment	-	299	343	(299)	-	343
Closed Landfill Sites*	615	615	-	(732)	297	412
Total	**1,268**	**1,638**	**343**	**(1,440)**	**297**	**1,070**
Total Provisions	**16,954**	**16,537**	**2,726**	**(1,917)**	**435**	**18,013**

**The prior year comparative figures have been restated on a basis consistent with 2012/13 and to adjust for the Council's closed landfill sites that might require restoration and aftercare.*

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 2013, but where the exact amount and the date of payment are uncertain.

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.

Municipal Mutual Insurance Limited (MMI) was the main Local Authority Insurer up until they entered administration in 1992. Being a mutual company, the members, including the Council, signed up to a 'Scheme of Arrangement', meaning once all claims have been discharged any outstanding assets would be distributed to the members, or conversely, the members would meet the cost of any liabilities, once all assets had been utilised. However, the Directors of MMI have triggered the Scheme of Arrangement. The Council's total MMI potential net exposure is in excess of £4.0m, and the advice from an independent review undertaken according to standard actuarial techniques is to set aside a contingency of 50% of this liability to meet the potential claw back.

Closed Landfill Sites - The Council has 19 closed landfill sites that require restoration and aftercare. An accounting model has been developed to determine the required provision for these future costs taking into consideration the annual costs relating to leachate removal, gas monitoring and water quality monitoring. The Council has a legal obligation to restore, monitor and maintain landfill sites. The balances at 1 April 2012 have been restated to include the required provision.

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.

Redundancy ASC – the provision relates to the potential costs associated 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 2013/14.

Governance and Community Services 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 2012/13 financial year is the second 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 2012/13, the Council will submit the annual report on its emissions for the 2012/13 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2013. The Council is required to surrender allowances to the scheme by the last working day in July 2013 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 2012/13 financial year. The Council does not purchase CRC allowances prospectively, nor allowances being held for trading.

23. 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 9 for school balances.

Earmarked Reserves - The Council holds a number of earmarked reserves which are used to earmark resources for specific projects/purposes; see Note 9 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 2012	31 March 2013
	£000	£000
Usable Capital Receipts Reserve	7,925	10,548
Capital Grants & Contributions Unapplied	53,916	56,598
Earmarked Reserves	140,849	117,928
Earmarked Reserves – Revenue Grant & Contribution	7,772	11,931
County Fund balances	8,303	8,898
School Balances	16,756	16,230
Total Usable Reserves	**235,521**	**222,133**

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.

	2011/12 £000	2012/13 £000
Balance at 1 April	**6,372**	**7,925**
Amounts receivable during the year	2,553	3,297
Amounts applied to finance new capital investment	(1,000)	(674)
Net Transfer to the Capital Receipts Reserve	1,553	2,623
Balance at 31 March	**7,925**	**10,548**

Capital Grants and Contributions Unapplied Account

The capital grants and contributions account holds 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.

	2011/12 £000	2012/13 £000
Balance at 1 April	**-**	**53,916**
Amounts receivable during the year	71,304	63,440
Amounts applied to finance new capital investment	(17,388)	(60,758)
Net Transfer to the Capital Unapplied Account	53,916	2,682
Balance at 31 March	**53,916**	**56,598**

24. Unusable Reserves

	31 March 2011 Restated £000	31 March 2012 Restated £000	31 March 2013 £000
Revaluation Reserve*	125,890	120,946	125,817
Capital Adjustment Account*	435,010	411,284	356,854
Financial Instruments Adjustment Account	(1,476)	(23)	(23)
Collection Fund Adjustment Account	1,404	2,000	3,217
Accumulated Absences Account	(8,633)	(7,196)	(6,782)
Pensions Reserve	(227,865)	(300,200)	(357,589)
Total Unusable Reserves	**324,330**	**226,811**	**121,494**

**The prior year comparative figures have been restated on a basis consistent with 2012/13.*

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.

.

	2010/11 Restated	2011/12 Restated	2012/13	
	£000	£000	£000	£000
Balance at 1 April	**55,521**	**126,278**		
Restatement (see note below)	-	(388)		
Restated Balance at 1 April	**55,521**	**125,890**		**120,946**
Upward revaluation of assets	80,719	24,817	18,138	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(1,065)	(1,619)	(3,522)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	79,654	23,198		14,616
Difference between fair value depreciation and historical cost depreciation	(1,376)	(5,511)	(5,173)	
Accumulated gains on assets sold or scrapped	(7,909)	(22,631)	(4,572)	
Amount written off to the Capital Adjustment Account	(9,285)	(28,142)		(9,745)
Balance at 31 March	**125,890**	**120,946**		**125,817**

Note - The balance at 1 April 2011 has been restated from £126.278m to £125.890m, a decrease of £0.388m. Similarly, the balance at 31 March 2012 has been restated from £121.334m to £120.946m (see Note 2a).

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 and 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 8 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2010/11 Restated	2011/12 Restated	2012/13	
	£000	£000	£000	£000
Balance at 1 April	**459,721**	**435,010**		**411,284**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(35,348)	(38,475)		(35,904)
Revaluation losses on non-current assets	(28,107)	(14,514)		(31,290)
Revaluation loss reversals on non-current assets	2,411	1,936		2,065

	2010/11 Restated £000	2011/12 Restated £000	2012/13 £000	2012/13 £000
Amortisation of intangible assets	(1,317)	(1,513)		(968)
Revenue expenditure funded from capital under statute	(5,243)	(14,228)		(39,726)
Gain on property transferred from Investment Properties to Property, Plant & Equipment	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)		(88,220)
	(99,022)	**(154,555)**		**(194,043)**
Adjusting amounts written out of the Revaluation Reserve	9,285	28,142		9,745
Net written out amount of the cost of non-current assets consumed in the year	**(89,737)**	**(126,413)**		**(184,298)**
Capital financing applied in the year				
Use of the Capital Receipts Reserve to finance new capital expenditure	1,000	1,000	674	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	50,307	24,691	61,471	
Statutory provision for the financing of capital investment charged against the General Fund balances	6,850	44,131	15,987	
Capital expenditure charged against the General Fund balances	6,869	32,992	51,742	
	65,026	**104,598**		**129,874**
Movements in the market value of Investment Properties debited to the Comprehensive Income and Expenditure Statement	-	(127)		(6)
Balance at 31 March	**435,010**	**411,284**		**356,854**

Note - The balance at 1 April 2011 has been restated from £443.752m to £435.010m, a decrease of £8.742m. Similarly, the balance at 31 March 2012 has been restated from £421.810m to £411.284m, a further decrease of £1.784m (see Note 2a).

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 2013 will be charged to the General Fund over a specific period.

	2011/12 £000	2012/13 £000
Balance at 1 April	**(1,476)**	**(23)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	1,453	-
Balance at 31 March	**(23)**	**(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.

	2011/12	**2012/13**
	£000	**£000**
Balance at 1 April	**(227,865)**	**(300,200)**
Actuarial losses on pensions assets and liabilities	(73,904)	(58,751)
Reversal of items relating to retirement benefits credited to Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(30,145)	(30,463)
Employer's pensions contributions and direct payments to pensioners payable in the year	31,714	31,825
Balance at 31 March	**(300,200)**	**(357,589)**

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.

	2011/12	**2012/13**
	£000	**£000**
Balance at 1 April	**1,404**	**2,000**
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	1,217
Balance at 31 March	**2,000**	**3,217**

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.

	2011/12	**2012/13**
	£000	**£000**
Balance at 1 April	**(8,633)**	**(7,196)**
Settlement or cancellation of accrual made at the end of the preceding year	8,633	7,196
Amounts accrued at the end of the current year	(7,196)	(6,782)
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	414
Balance at 31 March	**(7,196)**	**(6,782)**

25. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2011/12 Restated £000	2012/13 £000
Net Deficit on the Provision of Services	**22,013**	**74,570**
Adjust for non-cash movements		
Depreciation	(38,475)	(35,904)
Impairment and downward revaluations	(14,515)	(31,291)
Reversal of previous years revaluation losses	1,936	2,066
Amortisation	(1,513)	(968)
Financial Guarantee Adjustments	(54)	-
Net PFI Debtor Adjustments	(30,595)	(361)
Increase in Interest Creditors	(4,312)	(91)
(Increase) / Decrease in Creditors	6,945	(14,007)
Increase / (Decrease) in Interest Debtors	79	(63)
Increase in Debtors	4,167	3,177
Decrease in Inventories	(10)	(15)
Movement in Pension Liability	1,569	1,362
Contributions (to) / from Provisions	132	(1,476)
Carrying amount of non-current assets sold or derecognised	(87,761)	(88,220)
Gain on Property transferred from Investment Properties to PPE	-	-
Downward revaluation in Investment Property Values	(127)	(6)
Adjust for items that are investing or financing activities		
Capital grants and contributions credited to provision of services	78,607	64,153
Net adjustments from the sale of short term investments	-	(350)
Proceeds from the sale of PPE, Investment Properties and Intangibles	2,553	3,297
Net Cash inflow from Operating Activities	**(59,361)**	**(24,127)**

**The prior year comparative figures have been restated on a basis consistent with 2012/13.*

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

	2011/12 £000	2012/13 £000
Interest receivable	(2,709)	(2,856)
Opening debtor	(53)	(133)
Closing debtor	133	70
Cash flow interest received	**(2,629)**	**(2,919)**

	2011/12 £000	2012/13 £000
Interest payable	19,940	22,010
Opening creditor	1,153	5,465
Closing creditor	(5,465)	(5,556)
Cash flow interest paid	**15,628**	**21,919**

26. Cash Flow Statement – Investing Activities

	2011/12	2012/13
	£000	**£000**
Purchase of Property, Plant & Equipment	43,362	74,470
Purchase of Intangible Assets & Assets Held for Sale	1,093	666
PFI Assets (non cash flow item)	30,649	-
Opening Capital Creditors	3,373	2,225
Closing Capital Creditors	(2,225)	(973)
Purchase of short-term investments	91,449	-
Proceeds from the sale of PPE, and Intangible Assets	(2,329)	(3,297)
Other capital cash receipts	(276)	(69)
Capital Grants Received	(51,048)	(53,703)
Net cash outflow from investing activities	**114,048**	**19,319**

27. Cash Flow Statement – Financing Activities

	2011/12	2012/13
	£000	**£000**
Cash receipts of short and long term borrowing	(23,000)	(2)
Appropriation to Collection Fund Adjustment Account	596	1,217
Repayments of short and long term borrowing	(27)	-
Payments for the reduction of finance lease liabilities	246	125
Payments for the reduction of long term PFI Liabilities	2,690	3,288
Net cash outflow/(inflow) from financing activities	**(19,495)**	**4,628**

28. Amounts reported for resource allocation decisions

The Council Chief Operating Decision Maker is the Cabinet. 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:

2012/13 Department Income and Expenditure	Adult Social Care	Governance & Community Service	Children's Services	Business Services	Economy, Transport & Environment	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(62,015)	(12,680)	(382,464)	(33,949)	(53,062)	**(544,170)**
Government grants	(18,509)	(58)	(318,393)	(27)	(4,331)	**(341,318)**
Total Income	**(80,524)**	**(12,738)**	**(700,857)**	**(33,976)**	**(57,393)**	**(885,488)**
Employee expenses	52,135	15,171	265,035	12,133	14,064	**358,538**
Other service expenses	180,850	7,833	178,767	31,161	114,524	**513,135**
Support service recharges	10,182	3,643	343,211	6,719	6,261	**370,016**
Total Expenditure	**243,167**	**26,647**	**787,013**	**50,013**	**134,849**	**1,241,689**
Net Expenditure	**162,643**	**13,909**	**86,156**	**16,037**	**77,456**	**356,201**

2011/12 Department Income and Expenditure	Adult Social Care	Governance & Community Service	Children's Services	Business Services	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**

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.

	2011/12	2012/13
	£000	£000
Net expenditure in the Department Analysis	**357,769**	**356,201**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	21,629	70,673
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(16,730)	(31,968)
Cost of Services in Comprehensive Income and Expenditure Statement	**362,668**	**394,906**

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.

2012/13	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(544,170)	-	(1,913)	427,055	**(119,027)**	-	**(119,027)**
Net surplus on trading undertakings	-	-	-	-	-	(303)	**(303)**
Interest and investment income-	-	-	-	-	-	(2,857)	**(2,857)**
Income from council tax	-	-	-	-	-	(243,127)	**(243,127)**
Revenue Support Grant and other Grants	-	-	-	-	-	(10,711)	**(10,711)**
Non-Domestic Rates	-	-	-	-	-	(112,266)	**(112,266)**
Government grants and contributions	(341,318)	-	-	-	**(341,318)**	(64,153)	**(405,471)**
Total Income	**(885,488)**	-	**(1,913)**	**427,055**	**(460,345)**	**(433,417)**	**(893,761)**
Employee expenses	358,538	(2,548)			**355,990**	-	**355,990**
Other service expenses	476,264	4,684	(30,055)	(57,039)	**393,853**	-	**393,853**
Support Service recharges	370,016			(370,016)	**-**	-	**-**
Depreciation, amortisation and impairment	36,871	28,811	-	-	**65,682**	6	**65,688**
Revenue Expenditure Funded from Capital Under Statute(REFCUS)	-	39,726	-	-	**39,726**	-	**39,726**
Pensions interest cost and net return on assets	-	-	-	-	-	5,559	**5,559**
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	7,271	**7,271**
Interest Payments - other	-	-	-	-	-	14,739	**14,739**
Precepts & Levies	-	-	-	-	-	583	**583**
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	84,923	**84,923**
Total expenditure	**1,241,689**	**70,673**	**(30,055)**	**(427,055)**	**855,251**	**113,081**	**968,332**
Deficit on the provision of services	**356,201**	**70,673**	**(31,968)**	**-**	**394,906**	**(320,336)**	**74,570**

2011/12	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	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	(699)	-		**384,384**	-	**384,384**
Other service expenses	485,938	14,633	(67,460)	(26,255)	**406,856**	-	**406,856**
Support Service recharges	67,238	-	-	(67,238)	**-**	-	**-**
Depreciation, amortisation and impairment	44,871	7,699	-	-	**52,570**	127	**52,697**
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-Other	-	-	-	-	**-**	13,051	**13,051**
Precepts & Levies	-	-	-	-	**-**	504	**504**
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**
Deficit on the provision of services	**357,769**	**21,629**	**(16,730)**	**-**	**362,668**	**(340,655)**	**22,013**

Note - As a result of on-going consolidation of support services across the Council into a new Business Services Department, the Council is reviewing its basis for re-allocation of support service recharges. Therefore, in 2012/13, the allocation of recharges in 2012/13 process is slightly different with the approach adopted in the prior year.

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 and occupational therapy and home adaptations.

- 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; and looking after children in care.

- Business Services – responsible for managing the budget, auditing our finances, promoting the electronic delivery of services, improving the management of our financial and property resources, personnel and training.

- 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.

29. 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:

	2011/12			**2012/13**		
	Expenditure £000	**Income £000**	**Net £000**	**Expenditure £000**	**Income £000**	**Net £000**
County Catering Service	320	(323)	(3)	328	(344)	(16)
County Transport Group	99	(333)	(234)	1,840	(2,190)	(350)
Chiltern	25	(9)	16	30	(8)	22
Hospitality Hub	27	(5)	22	29	(6)	23
Sidley Café	13	(6)	7	23	(5)	18
1970 Act (see below)	2,039	(2,014)	25	2,093	(2,093)	-
Total	**2,523**	**(2,690)**	**(167)**	**4,343**	**(4,646)**	**(303)**

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 Council provides various services to bodies including district and parish councils, Sussex Police and Crime Commissioner 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:

	2011/12			**2012/13**		
	Expenditure	**Income**	**Net**	**Expenditure**	**Income**	**Net**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Legal Services	247	(247)	-	438	(438)	-
County Records	236	(236)	-	189	(189)	-
School Library Service	108	(108)	-	102	(102)	-
Music Tuition	185	(160)	25	9	(9)	-
Street Lighting	114	(114)	-	192	(192)	-
Lewes Car Parking scheme	340	(340)	-	123	(123)	-
Occupational Health	169	(169)	-	322	(322)	-
Financial Services	349	(349)	-	361	(361)	-
Property Services	107	(107)	-	269	(269)	-
Other	184	(184)	-	88	(88)	-
Total	**2,039**	**(2,014)**	**25**	**2,093**	**(2,093)**	**-**

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

In 2012/13 the Council participated in two partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006. One with Sussex Partnership NHS Foundation Trust and one with East Sussex Downs and Weald PCT and Hastings and Rother PCT.

- The **Mental Health Crisis Response & Home Treatment and Community Finance** schemes which started in April 2010 comprises the Council together with Sussex Partnership NHS Foundation Trust as host agency.

- The **Integrated Community Equipment Service** scheme which started in September 2004 comprises the Council as host agency, and the East Sussex Downs and Weald PCT and Hastings and Rother PCT.

- The **Carers Service** scheme started in April 2004 and comprised the Council as host agency, and the East Sussex Downs and Weald PCT and Hastings and Rother PCT. The Section 75 pooled budget arrangements were terminated on 30 September 2011.

- Children Community Services offer programs designed to influence a positive concept of self and enhance social, cognitive and communication skills. The program offers each child the opportunity to enhance their skills in a developmentally appropriate manner.

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

	2011/12 Expenditure	2011/12 Income	2011/12 ESCC Contribution	2012/13 Expenditure	2012/13 Income	2012/13 ESCC Contribution
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Arrangement						
Mental Health – Crisis Response & Home Treatment	2,530	(2,530)	(122)	2,463	(2,463)	(92)
Mental Health – Community Forensic	479	(479)	(149)	477	(477)	(132)
Integrated Community Equipment	4,056	(4,056)	(2,028)	3,692	(3,692)	(1,846)
Carers Services	298	(298)	(175)	-	-	-
Children's Community Services	26,868	(27,099)	(11,516)	24,936	(24,936)	(10,461)
Total	**34,231**	**(34,462)**	**(13,990)**	**31,568**	**(31,568)**	**(12,531)**

Note
Primary Care Trusts were abolished on 31 March 2013 under the Health & Social Care Act 2012 with clinical commissioning groups to take over their responsibilities.

31. *Members' Allowances*

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

	2011/12	2012/13
	£000	**£000**
Salaries (Basic allowances)	531	531
Members - NI & Pension	117	118
Special responsibility allowances	204	213
Expenses	36	47
Total	**888**	**909**

The table below shows the actual amounts paid to individual members in the 2012/13 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 2012/13

Name	Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Barnes	10,842.00	-	-	-
Belsey	10,842.00	14,451.96	2,153.65	4.00
Bennett	10,842.00	14,451.96	3,395.10	158.43
Bentley	10,842.00	14,451.96	1,932.75	19.50
Birch	10,842.00	-	27.00	0.00
Daniel	10,842.00	6,021.00	1,297.85	19.15
Dowling	10,842.00	12,042.00	789.75	42.50
Elkin	10,842.00	15,654.00	2,932.65	276.20
Ensor	10,842.00	6,021.00	-	-
Fawthrop	10,842.00	-	489.60	-
Field	10,842.00	3,129.00	1,462.05	61.10
Freebody	10,842.00	14,451.96	671.40	-
Freeman	10,842.00	-	771.30	-
Gadd	10,842.00	-	-	-
Glazier	10,842.00	16,860.00	4,537.80	413.80
Harris	10,842.00	-	-	-
Healy	10,842.00	-	802.80	-
Heaps	10,842.00	-	-	-
Howson	10,842.00	-	409.50	-
Hughes	10,842.00	-	-	-
Jones	10,842.00	24,087.00	-	-
Kenward	10,842.00	-	691.65	-
Lambert	10,842.00	-	-	37.10
Livings	10,842.00	-	492.30	-
Lock	10,842.00	12,579.28	2,419.25	34.90
Maynard	10,842.00	14,451.96	-	-
O'Keefe	10,842.00	-	-	-
Ost	10,842.00	-	292.55	2.75
Pragnell	10,842.00	6,021.00	-	-
Reid	10,842.00	-	-	-
Rodohan	10,842.00	-	405.00	-
Rogers	10,842.00	-	641.25	155.10
Scott	10,842.00	-	820.35	-
Shing	10,842.00	-	-	-
Shing	10,842.00	-	489.60	2.90
Simmons	10,842.00	6,021.00	1,099.35	64.40
Sparks	10,842.00	6,021.00	346.50	-
St Pierre	10,842.00	-	419.30	131.60
Stogdon	10,842.00	6,021.00	1,144.35	126.75
Stroude	10,842.00	3,883.58	475.65	-
Taylor	10,842.00	-	-	-
Thomas	10,842.00	-	3,548.25	975.15
Thompson	10,842.00	-	-	-
Tidy	10,842.00	-	585.90	8.10
Mrs Tidy	10,842.00	-	1,230.75	176.18
Tutt	10,842.00	12,042.00	429.30	111.00
Waite	10,842.00	-	839.25	-
Webb	10,842.00	4,821.00	-	10.20
Whetstone	10,842.00	-	-	-

32. Officers' Remuneration

The following table sets out 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 2012/13

	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		181,098	-	-	-	35,857	216,955
Assistant Chief Executive		99,150	-		-	19,632	118,782
Director of Children's Services		135,060	-	906	-	26,742	162,708
Director of Adult Social Care		128,193	-	1,029	-	25,382	154,604
Director of Transport Environment & Economy		125,277	-	3,826	-	25,382	154,485
Interim Director of Corporate Resources	1	65,045	-	-	-	-	65,045

Notes:

1. The Interim Director of Corporate Resources was appointed to this post for a fixed period agency, which ceased on December 2012. Value stated is amount due to the agency for services in the financial year.

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	-	3,919	-	24,203	149,964
Interim Director of Governance and Community Services	3	20,405	-	-	-	-	20,405
Interim Director of Corporate Resources	4	2,281	-	-	-	-	2,281

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.

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	2011/12 Number of employees	2012/13 Number of employees
£50,000 to £54,999	150	126
£55,000 to £59,999	91	68
£60,000 to £64,999	57	62
£65,000 to £69,999	33	29
£70,000 to £74,999	16	10
£75,000 to £79,999	16	9
£80,000 to £84,999	11	4
£85,000 to £89,999	9	5
£90,000 to £94,999	2	4
£95,000 to £99,999	6	5
£100,000 to £104,999	-	1
£105,000 to £109,999	4	1
£110,000 to £114,999	1	-
£115,000 to £119,999	3	-
£120,000 to £124,999	3	1
£125,000 to £129,999	3	3
£130,000 to £134,999	-	-
£135,000 to £139,999	1	2
£140,000 to £144,999	-	-
£145,000 to £149,999	-	-
£150,000 to £154,999	-	1
£155,000 to £159,999	-	-
£160,000 to £164,999	1	-
£165,000 to £169,999	-	-
£170,000 to £174,999	-	-
£175,000 to £179,999	1	-
£180,000 to £184,999	-	1
£185,000 to £279,999	-	-
£280,000 to £284,999	1	-

33. 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 BDO LLP for services rendered during the year.

	2011/12	2012/13			
	£000 Total	£000 BDO	£000 KPMG	£000 AC	£000 Total
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	199	103	9	(6)	106
Fees payable for the certification of grant claims and returns for the year	14	6	-	-	6
Total	**213**	**109**	**9**	**(6)**	**112**

The fees of £1,875 paid to the Audit Commission in 2012/13 (£2,000 in 2011/12) is in respect of work undertaken as part of the National Fraud Initiative. In 2012/13, the Council received a rebate of £8,166 from the Audit Commission due to costs reduction following the outsourcing of the Commission's Audit Practice and having agreed a revised structure and business model that focuses on core function for the period until the planned closure of the Commission. This has resulted in a net receipt from the Audit Commission of £6,291 (i.e., a payment of £1,875 and a subsidy of £8,166).

34. 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). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of education services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are as follows:

	2011/12	2012/13		
	Total £000	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for the year before Academy recoupment	319,094			319,073
Academy figure recouped	(11,642)			(43,691)
Total DSG after Academy recoupment	**307,452**			**275,382**
Brought Forward from prior year	3,709			4,469
Carry forward to following year agreed in advance	-	-	-	-
Agreed initial budgeted distribution	**311,161**	**42,349**	**237,502**	**279,851**
In year adjustments	-	-	(961)	(961)
Final budgeted distribution for the year	**311,161**	**42,349**	**236,541**	**278,890**
Less Actual central expenditure	(48,403)	(40,789)		(40,789)
Less Actual Individual Schools Budget (ISB) deployed to schools	(258,705)	-	(236,541)	(236,541)
Local authority contribution	416	416		416
Carry forward	**4,469**	**1,976**	**-**	**1,976**

School Reserve
The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2012/13 was £222.4m. Schools carried forward (reserve) a net total of £16.2m (7.3%) at the end of the financial year at 31 March 2013, which was a decrease of £0.5m compared to 31 March 2012. 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.**	**144**	**14**	**10**	**168**
Total surplus	£000	9,903	5,448	1,210	16,561
All schools with deficits					
Number of schools	**No.**	**4**	**1**	**-**	**5**
Total deficit	£000	(20)	(48)	-	(68)
Carry forward	**£000**	**9,883**	**5,400**	**1,210**	**16,493**
Less Capital Loan to Schools	£000	(175)	(88)	-	(263)
Net carry forward	**£000**	**9,708**	**5,312**	**1,210**	**16,230**

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.

35. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	£000	2011/12 £000	£000	2012/13 £000
Credited to Taxation and Non Specific Grant Income				
Council tax		240,900		243,127
Non-Domestic Rates		89,997		112,266
Revenue Support Grant				
General	27,818		2,176	
New Homes Bonus	375		831	
Local Services Support	1,586		1,684	
Council Tax Freeze	5,981		6,021	
		35,760		10,712
Recognised capital grants and contributions		78,607		64,152
Total		**445,264**		**430,257**
Credited to Services				
Dedicated Schools Grant		307,452		277,358
Standards Fund		2,708		-
General Sure Start Grant		287		-
YPLA grant for Sixth Forms		10,913		7,917
Private Finance Initiative		4,755		4,755
Pupil Premium		4,515		7,874
Early Intervention		18,206		19,332
Learning Disabilities Health & Reform		17,396		17,856
Other Grants		7,709		5,257
Total		**373,941**		**340,349**

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 2012 £000	31 March 2013 £000
Receipts in Advance		
Revenue Grants & Contributions	103	165

Long-term Liabilities

	31 March 2012 £000	31 March 2013 £000
Receipts in Advance		
Capital Grants & Contributions	4,836	4,038

36. 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 28 on reporting for resources allocation decisions, and further details are shown in Note 35. Grant receipts in advance at 31 March 2013 are shown in Note 35.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. None of the Chief Officers and majority of the Members (with the exception of a member, who is also a Director of Ingham House Ltd.) 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 2012/13 is shown in Note 31.

A Councillor/Member of the Council is also a Director of Ingham House Ltd, Ingham House Day Centre. This organisation has received payments from the Council in 2012-13 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 2013 was £191,436 for care services.

Other Public Bodies

During 2012/13, the Pension Fund had an average balance of £1.2m deposited with the Council, and paid £8,007 interest for these deposits. The Council charged the Fund £1.4m for expenses incurred in administering the Fund.

The Council is involved in several partnerships under Section 75 of the National Health Services Act 2006. Details of these arrangements are shown in Note 30.

Entities controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 47), for the balances held by the Council at 31 March 2013.

The High Weald Unit of the Economy, Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd (see Note 49 to the balance sheet) at an annual rent of £15,180. There were no long term debts to the company at 31 March 2013.

37. 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 Restated £000	2012/13 £000
Opening Capital Financing Requirement	**334,334**	**349,603**	**402,386**
Property, Plant and Equipment	74,405	140,327	74,470
Intangible assets	232	397	680
Assets Held for Sale	296	696	(16)
Revenue Expenditure Funded from Capital under Statute	5,243	14,228	39,726
Total capital investment	**80,176**	**155,648**	**114,860**
Capital receipts	(1,000)	(1,000)	(674)
Government grants and contributions	(50,307)	(24,691)	(61,471)
Revenue financing	(6,869)	(32,992)	(51,742)
Total financing other than from loans	**(58,176)**	**(58,683)**	**(113,887)**
Long Term capital debtors	119	(51)	(69)
Net investment financed from loans			
Minimum Revenue Provision (MRP) for the repayment of loans	(6,850)	(44,131)	(15,987)
Closing Capital Financing Requirement	**349,603**	**402,386**	**387,303**

Explanation of movements in year	2010/11 £000	2011/12 £000	2012/13 £000
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	**15,269**	**52,783**	**(15,083)**

Note - The opening CFR at 1 April 2011 has been restated by £9.13m to include closed landfill sites.

38. Leases

Authority as Lessee

Finance Leases - As at 31 March 2013, the Council has one asset classed as finance lease (three in prior year). The asset is the ICT storage network. The asset under these lease is carried as Property, Plant, and Equipment in the Balance Sheet at the following net amount:

	31 March 2012 £000	31 March 2013 £000
Vehicles, Plant, Furniture and Equipment	691	119

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 2012 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	247	126
Non-current	125	-
Finance costs payable in future years	9	-
Minimum lease payments	**381**	**126**

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 2012	31 March 2013	31 March 2012	31 March 2013
	£000	£000	£000	£000
Not later than one year	256	126	247	126
Later than one year and not later than five years	125	-	125	-
Total	**381**	**126**	**372**	**126**

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 2012 Restated	31 March 2013
	£000	£000
Not later than one year	4,314*	3,851
Later than one year and not later than five years	11,838*	12,123
Later than five years	26,081*	26,378
Total	**42,233**	**42,352**

*The prior year comparative figures have been restated on a basis consistent with 2012/13.

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

	2011/12 Restated	2012/13
	£000	£000
Vehicles	484	520
Schools Equipment	915	966
Land and Buildings	3,066*	3,382
Total	**4,465**	**4,868**

*The prior year comparative figures have been restated on a basis consistent with 2012/13.

Other payments for the renting and hiring of facilities in 2012/13 was £0.094m (£0.131m 2011/12).

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 2012 Restated	31 March 2013
	£000	£000
Not later than one year	1,479*	1,600
Later than one year and not later than five years	1,445	1,102
Later than five years	121*	80
Total	**3,045**	**2,782**

*The prior year comparative figures have been restated on a basis consistent with 2012/13. The total income received from leasing, renting and hiring of facilities in 2012/13 was £2.617m (£2.729m 2011/12).

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2012 Restated £000	31 March 2013 £000
Long Term PFI Liabilities	96,054	93,739
Long Term Finance Lease Liabilities (Note 38)	125	-
Financial Guarantee	54	54
Long Term Creditors	1	1
Total	**96,234**	**93,794**

Note – Long Term PFI Liabilities have been restated by £0.499m to £96.054m due to an increase in the Peacehaven Schools PFI Liability from £14.362m to £14.861m.

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 Secondary £000**	**Peacehaven Infant £000**	**Peacehaven Heights £000**	**Total £000**
Value of Assets							
1 April 2012	**2,418**	**4,982**	**249**	**10,615**	**1,137**	**-**	**19,401**
Transfers	(2,418)	-	-	-	(1,137)	3,555	-
Additions and reclassification from PPE	-	46	-	1,950	-	58	2,054
Depreciation	-	(157)	(8)	(393)	-	(112)	(670)
31 March 2013	**-**	**4,871**	**241**	**12,172**	**-**	**3,501**	**20,785**

Note - In September 2013, Hoddern Junior School and Peacehaven Infants School amalgamated to become Peacehaven Heights Primary School.

Waste PFI	**Hollingdean WTS & MRF £000**	**Crowborough HWRS £000**	**Maresfield WTS & HWRS £000**	**Whitesmith Composting Facility £000**	**Newhaven Energy Recovery facility £000**	**Pebsham HWRS £000**	**Total £000**
Value of Assets							
1 April 2012	**9,862**	**2,857**	**3,133**	**9,391**	**96,965**	**-**	**122,208**
Additions	-	-	-	-	-	973	973
Revaluations	(1,946)	(760)	(694)	(2,665)	(22,807)	487	(28,385)
Depreciation	(300)	(78)	(84)	(218)	(2,811)	-	(3,491)
31 March 2013	**7,616**	**2,019**	**2,355**	**6,508**	**71,347**	**1,460**	**91,305**

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. In 2009/10 the agreement 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 £000	**Interest £000**	**Service charge £000**	**Total £000**
Within 1 year: 2013/14	2,379	4,517	16,402	**23,298**
Within 2 to 5 years: 2014/15 to 2017/18	10,958	16,771	69,032	**96,761**
Within 6 to 10 years: 2018/19 to 2022/23	13,441	17,645	102,741	**133,827**
Within 11 to 15 years: 2023/24 to 2027/28	23,619	12,733	113,132	**149,484**
Within 16 to 20 years: 2028/29 to 2032/33	31,864	5,455	129,990	**167,309**
Total	**82,261**	**57,121**	**431,297**	**570,679**

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 2013, 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	Total
	£000	**£000**	**£000**	**£000**	**£000**
Within 1 year: 2013/14	549	1,468	1,431	526	**3,974**
Within 2 to 5 years: 2014/15 to 2017/18	2,817	5,254	6,166	2,477	**16,714**
Within 6 to 10 years: 2018/19 to 2022/23	5,470	4,619	8,806	4,029	**22,924**
Within 11 to 15 years: 2023/24 to 2027/28	5,569	1,322	6,819	3,430	**17,140**
Total	**14,405**	**12,663**	**23,222**	**10,462**	**60,752**

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 2013 is £96.67m (£82.26m for Waste PFI, and £14.41m for Peacehaven Schools PFI), and as at 31 March 2012 was £98.74m (£83.88m for Waste PFI, and £14.86m 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 Corporate Waste Reserve, see Note 9, 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 2012/13 the Pebsham household waste recycling site became operational at a value of £973,000 which was offset by the remaining balance of £361,000 in the Waste PFI Prepayment Reserve and 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 2012 (restated)	**83,883**	**14,861***	**98,744***	**2,690**	**96,054**
New operational assets	973	-	973	-	973
Use of prepayment reserve	(361)	-	(361)	-	(361)
Lease principal repayment	(2,234)	(456)	(2,690)	237	(2,927)
Balance outstanding at 31 March 2013	**82,261**	**14,405**	**96,666**	**2,927**	**93,739**

For details of the restatement see prior period adjustments at note 2a.

40. 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. In 2012/13, the Council has recognised a revaluation loss of £31.1m (£14.5m in 2011/12) in the Comprehensive Income and Expenditure Statement and £3.5m (£1.6m in 2011/12) 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.

41. 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 191 employees during 2012/13, incurring costs of £2.6m (493 terminations at a cost of £6.1m in 2011/12). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2012/13 and 2011/12 are shown in the tables below.

Exit Packages 2012/13

	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	43	200	113	993	156	1,193
£20,000 to £39,999	4	125	21	597	25	722
£40,000 to £59,999	3	172	3	134	6	306
£60,000 to £79,999	-	-	1	61	1	61
£80,000 to £99,999	-	-	-	-	-	-
£100,000 to £149,999	-	-	3	313	3	313
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
Total	**50**	**497**	**141**	**2,098**	**191**	**2,595**

Exit Packages 2011/12

	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	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**

42. 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 2012/13, the Council incurred a total of £15.71m 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 which amounted to £2.9m. These figures compare to an amount of £17.96m payable in 2011/12 (14.1% of pensionable pay), and £3.2m 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 2013, the Council owed £1.92m 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 43.

43. 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:

	2011/12 £000	**2012/13 £000**
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- Current Service Cost	24,907	23,980
- Past Service Cost	608	355
- Settlements and Curtailments	2,923	569
Financing and Investment Income and Expenditure:		
- Interest Cost	54,646	52,210
- Expected Return on Scheme Assets	(52,939)	(46,651)
Total Post Employment Benefit Charged to the Deficit on the Provision of Services	**30,145**	**30,463**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement - Actuarial losses	73,904	58,751
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**104,049**	**89,214**
Movement in Reserves Statement		
Reversal of net charges made to the Deficit for the Provision of Services for post employment benefits in accordance with the Code	(72,335)	(57,389)
Employers contributions payable to scheme charged to General Fund	**31,714**	**31,825**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £317.8m (£258.8m in 2011/12)

IAS19 (Revised) - The above figures are based on the current version of IAS19. Changes to IAS19 come into effect for the financial year to 31 March 2014. The changes will be adopted retrospectively for the prior year, in accordance with IAS8. The effect of the change to IAS19 on the Comprehensive Income and Expenditure Statement to 31 March 2013 will be an increase of £8.69m. This will be disclosed in the report covering the year to 31 March 2014.

Assets and Liabilities in Relation to Post-employment Benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2011/12	**2012/13**
	£000	**£000**
Opening balance at 1 April:	**995,381**	**1,091,825**
Current Service Cost	24,907	23,980
Interest Cost	54,646	52,210
Contributions by scheme participants	8,931	8,576
Actuarial losses	45,468	127,842
Past Service Cost	608	355
Losses on Curtailments	2,923	569
Estimated Unfunded Benefits Paid	(4,940)	(5,366)
Estimated Benefits paid	(36,099)	(36,743)
Closing balance at 31 March:	**1,091,825**	**1,263,248**

Reconciliation of fair value of the scheme assets:

	2011/12	**2012/13**
	£000	**£000**
Opening balance at 1 April:	**767,516**	**791,625**
Expected rate of return	52,939	46,651
Contributions by scheme participants	8,931	8,576
Employer contributions	26,774	26,459
Contributions in respect of unfunded benefits	4,940	5,366
Actuarial gains and (losses)	(28,436)	69,091
Unfunded benefits paid	(4,940)	(5,366)
Benefits paid	(36,099)	(36,743)
Closing balance at 31 March:	**791,625**	**905,659**

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 £115.9m (2011/12: £24.7m).

Scheme History

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	£000	**£000**	**£000**	**£000**	**£000**
Present Value of Liabilities: Local Government Pension Scheme	(770,568)	(1,224,665)	(995,381)	(1,091,825)	(1,263,248)
Fair value of assets in the Local Government Pension Scheme	507,975	708,728	767,516	791,625	905,659
Deficit in the scheme: Local Government Pension Scheme	**(262,593)**	**(515,937)**	**(227,865)**	**(300,200)**	**(357,589)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,263.2m (£1,091.8m in 2011/12) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £357.6m (£300.2m in 2011/12).

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 2014 is £24.9m (£25.1m in 2011/12).

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 £535.7m, £202.9m and £440.7m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2013. There is also a liability of approximately £38.8m in respect of LGPS unfunded pensions and £45.1m in respect of Teachers' unfunded pensions. The equivalent amounts at 31 March 2012 were: £418.2m, £170.9m and £423.5m 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:

	2011/12	2012/13
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.3%	4.5%
Bonds	4.4%	4.5%
Property	4.4%	4.5%
Cash	3.5%	4.5%
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	2.5%	2.8%
Rate of increase in salaries	4.8%	5.1%
Expected Return on Assets	5.9%	4.5%
Rate for discounting scheme liabilities	4.8%	4.5%
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 2012	31 March 2013
	%	%
Equity investments	80	80
Bonds	9	9
Property	9	8
Cash	2	3
Total	**100**	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Difference between the expected and actual return on assets	(29.75)	21.48	0.46	(3.59)	7.63
Experience gains and (losses) on liabilities	0.07	0.02	8.16	(1.46)	(0.10)

At 31 March 2013, the Council owed £2.92m 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 99 to 130.

44. 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, and this has now progressed to the Supreme Court. This matter is therefore still ongoing, with the final outcome and associated costs still uncertain.

45. Contingent Assets

There are two contingent assets, one for claiming compound interest from HMRC, which has been lodged at the High Court for a sum in excess of £400,000, and the other relates to an overpaid VAT on car parking. 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 £115,694 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 back to the High Court by the European Court of Justice, which means a wait of up to two years for the outcome.

46. 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 rate 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 7 February 2012 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2012/13 was set at £394 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £374 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 46% 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 minimised 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 between 2008/09 and 2012/13.

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 2013 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 which invest in Government Securities only, 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 30%

- 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. The banks will not be used if the UK Sovereign rating falls below AAA.

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. Other very safe alternative investments will be explored when they become available.

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 £270.7m and cash deposits of £17.1m 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 2013 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 2013, the Council's investments and cash deposits included £287.8m 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 £9.3m in 2012/13 (£11.4m 2011/12) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2012	31 March 2013
	£000	£000
Less than three months	8,359	7,173
Three to five months	787	621
Five months to one year	1,003	452
More than one year	1,263	1,086
Total	**11,412**	**9,332**

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 2012	31 March 2013
	£000	**£000**
Less than one year (current assets)	306,220	321,411
Between one and two years	722	653
	306,942	**322,064**

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 2012	31 March 2013
	%	**%**	**£000**	**£000**
Less than one year (current liabilities)	0%	25%	91,479	96,214
Between one and two years	0%	40%	4,688	11,710
Between two and five years	0%	60%	45,010	24,576
Between five and ten years	0%	80%	37,197	39,577
More than ten years	0%	80%	273,600	280,874
			451,974	**452,951**

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 2012/13 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	2,878
Impact on Comprehensive Income and Expenditure	2,878
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 £2.9 million (£2.8 million in 2011/12) 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.

47. 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. BDO LLP separately provides an independent examination of this Trust Fund.

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

	2012/13			
	Opening Balance £000	Income in Year £000	Expenditure £000	Closing Balance £000
Sole trustee funds				
Music Trust	681	3	(16)	668
Robertsbridge Youth Centre	103	1	-	104
Lewes Educational Charity	46	2	(4)	44
How Scholarship	3	2	-	5
Wright Legacy	2	-	-	2
Total sole trustee funds	**835**	**8**	**(20)**	**823**
Ashdown Forest Trust	1,405	71	(102)	1,374
General trust funds	64	-	-	64
Bequests	119	-	-	119
Voluntary funds	(2)	-	-	(2)
Comforts funds	33	26	(15)	44
Safe Custody	53	10	(6)	57
Total trust funds	**2,507**	**115**	**(143)**	**2,479**

48. 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 2012/13, £39,725,761 (£14,227,590 in 2011/12) of the Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 8), and all was written off in the year the expenditure was incurred.

49. 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 £835,712 as at 31 March 2013. The legal liability of the County 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 recognised any amount as an investment in this company.

50. 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	2012/13 £000
Local Services Support Grant	1,586	1,684

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.

51. Landfill Allowance Trading Scheme

In order to reduce the amount of biodegradable waste (for example, kitchen and garden waste, paper and card) going to landfill, the government has issued tradable landfill allowances to waste disposal authorities to allow them to landfill a reducing number of tonnes for each year from 2005/06 to 2019/20. The scheme final year is 2012/13. The allowances are reflected at fair value and are subsequently re-valued each financial year.

As at 31 March 2012, the Council had estimated it would have 66,966 surplus permits from 2011/12, valued at £nil. The actual amount of surplus permits was 68,549. The Council sold 12,558 surplus permits to other local authorities for £2,291.60 - an average of 18p per permit. £708.63 of this income was paid to Brighton and Hove City Council as part of the Joint Working Agreement between the two Councils.

The Council's allocation for 2012/13 was 123,949 tonnes, including a surplus of 55,991 carried forward from prior years. An estimated 13,716 permits were used leaving a 2012/13 surplus of 110,233 permits.

The allowances are reflected at fair value and are subsequently revalued each financial year. In previous years, the fair value of the assets was measured by using evidence of the market value of the same or similar assets. It is considered by the Council that the fair value of the allowances is £nil, based on recent market sales of allowances and the assumption that there will be no future market for allowances as the scheme is due to end after 2012/13.

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.

52. Heritage Assets

The Council has identified the following heritage assets:

- 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;
- Chattels at Bentley House, Halland;
- Listed buildings and monuments owned by the Council or on Council land.

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. For assets where 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 assets are not included on the Balance Sheet.

Reconciliation of the carrying value of Heritage Assets held:

Heritage Assets	**Art Collection**	**Bentley House Chattels**	**Total**
	£000	**£000**	**£000**
Cost or valuation			
1 April 2011	**31**	**-**	**31**
Revaluation loss recognised in Deficit on Provision of Services	(18)	-	(18)
31 March 2012	**13**	**-**	**13**
Reclassification from Property, Plant & Equipment	-	644	644
Revaluation loss recognised in Deficit on Provision of Services	-	(160)	(160)
31 March 2013	**13**	**484**	**497**

The Art Collection was valued at £31,000 but following a revaluation in 2011/12 revalued at £13,000.

During 2012/13, the chattels at Bentley House, Halland were reclassified from Property, Plant & Equipment to Heritage Assets and revalued down to £484,000. There have been no additions, revaluations or disposals of heritage assets, other than that recorded above, in the past five years.

53. Heritage Assets: Further Information

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 in 2011/12 with the valuations based on those for insurance replacement purposes.

Chattels at Bentley House, Halland

Bentley House, Halland including the Motor Museum and Wild Fowl Reserve is owned by the Bentley Trust. However some of the contents of the house are under the ownership of East Sussex County Council. The contents or chattels include furniture, furnishings paintings and sculptures. The last valuation, based on a March 2011 inventory, was undertaken by Sotheby's who provided a saleroom estimate for each item.

Listed Buildings

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 operational Property, Plant, and Equipment on the Council's Balance Sheet. In addition there are a number of listed buildings that are non operational assets which 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

54. Closed Landfill Sites

A former or closed landfill site is an area that has previously been used to dispose of rubbish from the construction industry, commercial businesses and households. The closed site will have ceased accepting rubbish and would be restored. When a landfill site is originally granted planning permission, the future land use is sometimes agreed as part of the planning application. If not, the site will usually be restored so that it can be used for either recreational purposes or for agriculture such as grazing.

To ensure closed landfill sites are safe, they are regularly monitored. The Council currently monitors 19 closed landfill sites of which most are over 30 years old and closed in the 1980's. The Council is responsible for aftercare costs as there is a slight risk from leachate and escaped gases. Organic waste produces bacteria which breaks the rubbish down. However the decaying rubbish produces weak acidic chemicals which combine with liquids in the waste to form leachate liquid and landfill gas. As the acids from decaying waste react with other rubbish, the leachate can become toxic and contaminate nearby water. Therefore the leachate is collected and disposed of at a waste treatment plant. Landfill gases contain methane and carbon dioxide plus small amounts of other gases. Methane is flammable and can cause explosions, so some landfill sites burn off the gas or use it to generate electricity. As a result the gas emissions from landfill sites must be constantly monitored for many years after the sites have stopped accepting rubbish.

Previously, the Council has not made a provision for aftercare cost but instead had impaired the landfill sites land value to nil. Aftercare costs were expensed from revenue in the Comprehensive Income and Expenditure Statement. The Council has now changed its accounting policy (see accounting policy (xxii) on page 38) and in accordance with Environment Agency legislation will make a provision for a past event of up to 60 years for future aftercare costs for each site. The provision is the best estimate of the expenditure required to settle the obligation. The Balance Sheet has therefore been restated at 1 April 2011 with a provision balance of £10.70 million (see Note 2a). Over the remaining aftercare life for each site, the Council will charge aftercare costs to the provision and so reduce the liability. At 31 March 2012 the liability had reduced to £10.42 million and at 31 March 2013 to £10.12 million.

The Council own the freehold or part freehold of nine of the nineteen sites and in accordance with IAS 16 Property, Plant & Equipment and the Council's own accounting policy (see accounting policy (xx) on page 35), has now recognised the land value in the Balance Sheet. One of the sites was already on the Council's Balance Sheet as it is on school land and the remaining eight sites have been valued at £0.7 million at 31 March 2013.

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

Fund Account for Year Ended 31 March 2013
Dealings with Members, Employers and Others directly involved in the Scheme

2011/12				2012/13	
£000	£000			£000	£000
		Contributions	**Notes**		
78,364		From Employers	7	80,556	
26,979	105,343	From Employees or Members		26,345	106,901
	38,637	**Transfers in**	8		7,854
	143,980				**114,755**
	104,690	**Benefits Payable**	9		106,076
	4,176	Payments to and on account of leavers	10		4,816
	1,608	Administrative expenses	11		1,464
	110,474				**112,356**
	33,506	Net Additions from dealings with members			**2,399**
		Returns on investments			
	25,865	Investment income	12		22,490
	(1,122)	Taxes on Income	13		(735)
	17,681	Profit and losses on disposal of investments and changes in the market value of investments	15a		256,500
	(6,979)	Investment management expenses	14		(7,449)
	35,445	Net returns on investments			**270,806**
	68,951	Net Increase in fund during the year			273,205
	2,002,120	Add Opening Net Assets of the Scheme			2,071,071
	2,071,071	Closing net assets of the scheme			**2,344,276**

Net Assets Statement for the year ended 31 March 2013

31 March 2012 (restated) £000		Notes	31 March 2013 £000
2,019,482	Investment Assets	15	2,281,664
35,905	Other Investment Balances	20	80,284
45,273	Cash deposits with the Custodian and fund managers	15	58,468
2,100,660			**2,420,416**
(35,147)	Investment Liabilities	21	(81,629)
9,930	Current Assets	20	9,780
(4,372)	Current Liabilities	21	(4,291)
2,071,071	**Net assets of the fund available to fund benefits at the period end**		**2,344,276**

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 2013 and of the movements for the year then ended.

Mo Hemsley
Acting Chief Finance Officer
10 September 2013

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 2012/13 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 benefit 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 82 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2012	31 March 2013
Number of employers participating in the scheme	73	82
Number of employees		
County Council	9,504	9,336
Other employees	11,546	12,011
Total	**21,050**	**21,347**
Number of pensioners		
County Council	6,966	7,160
Other employers	8,772	9,116
Total	**15,738**	**16,276**
Deferred pensioners		
County Council	10,242	10,782
Other employers	11,262	12,040
Total	**21,504**	**22,822**

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 2013. 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.	No automatic lump sum.
	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	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.

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 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007).

The accounts summaries 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.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, Responsibilities of Key Parties, and Statements of Compliance. Copies can be obtained by contacting the Council's Accounts and Pensions team or alternatively are available from - http://www.eastsussex.gov.uk

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 expenses

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 except where noted below for performance related fees.

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 manager mandate with Marathon Asset Management was performance related. This global equities mandate was terminated in September 2012.

The performance fee is calculated at the anniversary of the initial investment which commenced in June 2010. This is accounted for as a cash paid basis and £0.4m performance related fees were charged to 2011/12 in respect of the 12 months ended June 2011. The final fee for the period July 2011 until the termination in September 2012 was £0.5m and was charged in the 2012/13 accounts.

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:

i. 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.

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

iii. 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.

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

v. 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 and demand deposits.

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

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 many 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 2013 was £127.4 million (£108.6 million at 31 March 2012).

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.

Use of Financial Instruments

The Fund uses financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

5. Future assumptions and other estimation 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 2013 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 2013, the fund had a balance of sundry debtors of £1.9 million. 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 such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £127.4 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6. Events after the balance sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions Receivable

By category

2011/12 £000		2012/13 £000
78,364	Employers	80,556
26,979	Members	26,345
105,343		**106,901**

By authority

2011/12 £000		2012/13 £000
61,808	Scheduled bodies	60,949
1,976	Admitted bodies	5,135
41,559	Administrative Authority	40,817
105,343		**106,901**

8. Transfers in from other pension funds

2011/12 £000		2012/13 £000
29,039	Group transfers	1,816
9,598	Individual transfers	6,038
38,637		**7,854**

All employees of Surrey Probation, a scheme employer in the Surrey Pension fund, transferred to Surrey and Sussex probation service in 2011/12 and now are members of the East Sussex Pension fund. The fund agreed with the actuary the value of the bulk transfer in and the fund received income of £26.4m in October 2011. This is included in the group transfer value above.

9. Benefits payable

By category

2011/12 £000		2012/13 £000
73,302	Pensions	79,776
28,766	Commutation and lump sum retirement benefits	25,096
2,622	Lump sum death benefits	1,204
104,690		**106,076**

By authority

2011/12 £000		2012/13 £000
59,072	Scheduled bodies	62,500
2,558	Admitted bodies	2,783
43,060	Administrative Authority	40,793
104,690		**106,076**

10. Payments to and on account of leavers

2011/12 £000		2012/13 £000
90	Refunds to members leaving service	5
4,086	Individual transfers	4,811
4,176		**4,816**

11. Administrative expenses

2011/12 £000		2012/13 £000
1,305	Administration and Processing	1,243
9	Legal fees	18
40	External audit fees	24
24	Internal audit fees	22
230	Actuarial fees	157
1,608		**1,464**

The External auditor appointed to audit the fund is BDO LLP. Fees include only the statutory audit of the fund and no non-audit services have been provided.

12. Investment income

2011/12 £000		2012/13 £000
2,119	Fixed interest securities	2,030
655	Index linked securities	547
14,159	Equity dividends	9,850
5,290	Pooled property investments	6,380
3,148	Pooled investments - unit trusts and other managed funds	3,419
473	Interest on cash deposits	243
21	Class Actions	21
25,865		**22,490**

13. Taxes on income

2011/12 £000		2012/13 £000
(1)	Withholding tax - fixed interest securities	-
(760)	Withholding tax - equities	(433)
(361)	Withholding tax - pooled	(302)
(1,122)		**(735)**

14. Investment expenses

2011/12 £000		2012/13 £000
6,594	Management fees	7,097
173	Custody fees	119
17	Performance monitoring service	17
195	Investment consultancy	216
6,979		**7,449**

15. Investments

2011/12 £000 (restated)		2012/13 £000
	Investment assets	
141,896	Fixed interest securities	156,837
52,549	Index Linked	64,412
484,310	Equities	586,818
1,087,520	Pooled Investments	1,209,533
189,360	Pooled property investments	192,773
51,910	Infrastructure	58,898
10,984	Commodities	11,998
-	Multi Asset	1,297
	Derivative contracts:	
668	Forward Currency Contracts	92
315	Purchased/written options	202
2,019,512		**2,282,860**
45,273	Cash deposits with Custodian	58,468
35,905	Other Investment Balances (Note 20)	80,284
2,100,690	**Total investment assets**	**2,402,716**
(35,147)	Investment Liabilities (Note 21)	(81,629)
(30)	Derivative Contracts – Forward Currency	(1,196)
(35,177)	**Total investment liabilities**	**(82,825)**
2,065,513	**Net investment assets**	**2,319,891**

15a. Reconciliation of movements in investments and derivatives

	Market Value 1 April 2012 £000 (restated)	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2013 £000
Fixed interest securities	**141,896**	2,059	-	12,882	**156,837**
Index Linked	**52,549**	22,604	(15,333)	4,592	**64,412**
Equities	**484,310**	121,253	(90,593)	71,848	**586,818**
Pooled investments	**1,087,520**	162,372	(202,974)	162,615	**1,209,533**
Pooled property investments	**189,360**	6,354	(2,147)	(794)	**192,773**
Infrastructure	**51,910**	1,154	(4)	5,838	**58,898**
Commodities	**10,984**	10,788	(10,135)	361	**11,998**
Multi Asset	**-**	2,165	-	(868)	**1,297**
	2,018,529	328,749	(321,186)	256,474	**2,282,566**
Derivative contracts					
■ Futures	-	-	-	-	-
■ Purchased/written options	315	3,836	(1,726)	(2,223)	202
■ Forward currency contracts	638	4,397	(9,232)	3,093	(1,104)
	2,019,482	**336,982**	**(332,144)**	**257,344**	**2,281,664**

	Market Value 1 April 2012	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 2013
	£000	£000	£000	£000	£000
Other investment balances:					
■ **Cash deposits**	45,273			(844)	58,468
■ **Other Investment Balances**	35,905				80,284
■ **Investment Liabilities**	(35,147)				(81,629)
Net investment assets	**2,065,513**			**256,500**	**2,338,787**

	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:					
■ **Other Investment Balances**	55,683				35,905
■ **Investment Liabilities**	(54,221)				(35,147)
Net investment assets	**1,872,037**			**17,635**	**2,020,240**

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 £286k (£537k in 2011/12). 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)

2011/12 £000		2012/13 £000
	Fixed interest securities	
	UK	
141,896	Public sector quoted	156,837
141,896		**156,837**
	Index linked Securities	
	UK	
24,096	Public sector quoted	35,105
	Overseas	
28,453	Public sector quoted	29,307
52,549		**64,412**
	Equities	
	UK	
44,369	Quoted	57,933
12,310	Unquoted	14,439
	Overseas	
319,062	Quoted	387,580
108,569	Unquoted	126,866
484,310		**586,818**
	Pooled funds - additional analysis	
	UK	
594,385	Unit trusts	699,428
	Overseas	
493,135	Unit trusts	510,105
1,087,520		**1,209,533**
189,360	Pooled property investments	192,773
51,910	Infrastructure	58,898
10,984	Commodities	11,998
-	Multi Asset	1,297
252,254		**264,966**
2,018,529		**2,282,566**

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.

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	46,836	JPY	(6,688)	-	(51)
Up to 2 months	EUR	2,005	GBP	(1,735)	-	(38)
Up to 2 months	GBP	29	CAD	(44)	-	-
Up to 2 months	GBP	5,437	CHF	(8,005)	-	(132)
Up to 2 months	GBP	5,524	EUR	(6,421)	91	-
Up to 2 months	GBP	714	SEK	(7,046)	1	-
Up to 2 months	GBP	16,925	USD	(27,177)	-	(975)
					92	(1,196)
Net forward currency contracts at 31 March 2013						**(1,104)**
Prior year comparative						
Open forward currency contracts at 31 March 2012					668	(30)
Net forward currency contracts at 31 March 2012						**638**

Purchased/written options

Investment underlying option contract	Expires	Put/Call	Notional holding	Market value 31 March 2012	Notional holding	Market value 31 March 2013
			£000	£000	£000	£000
Assets						
Overseas equity purchased	Less than 1 month	Put	-	315	-	202
Net purchased/written options				**315**		**202**

d) Investments analysed by fund manager

Market value 31 March 2012 £000	%		%	Market value 31 March 2013 £000
82,679	4.0%	Prudential M&G	4.0%	94,010
15,438	0.8%	East Sussex Pension Fund Cash	0.5%	12,861
5	0.0%	Fidelity International	0.0%	-
20,922	1.0%	UBS Infrastructure Fund	1.1%	25,487
30,988	1.5%	Prudential Infracapital	1.4%	33,411
816,259	39.5%	Legal & General	42.2%	987,433
12,310	0.6%	M&G UK Financing Fund	0.6%	14,439
194,808	9.4%	Schroders Property	8.5%	199,421
50,928	2.5%	Harbourvest Strategies	2.6%	61,717
57,642	2.8%	Adams St Partners	2.8%	65,669
59,217	2.9%	M&G Absolute Return Bonds	2.7%	62,828
165,573	8.0%	Ruffer LLP	9.9%	228,645
289,616	14.0%	Lazard Asset Management	14.4%	336,334
164,974	8.0%	Newton Investment Management	9.3%	217,877
102,758	5.0%	Marathon Asset Management	0.0%	-
2,064,117				**2,340,132**

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

Security	Market Value 31 March 2012 £000	% of total fund	Market value 31 March 2013 £000	% of total fund
L&G UK Equity Index	413,031	20.0%	452,754	19.3%
Newton Real Return (Pooled Fund)	164,974	8.0%	217,877	9.3%
L&G North America Equity Index	141,857	6.9%	213,329	9.1%
L&G Europe (EX UK) Equity Index	115,052	5.6%	126,872	5.4%
Marathon (Pooled Fund)	102,758	5.0%	-	-

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 (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2012				31 March 2013		
Market Value Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Market Value Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
141,896	-	-	Fixed interest securities	156,837	-	-
52,549	-	-	Index linked	64,412	-	-
484,310	-	-	Equities	586,818	-	-
1,087,520	-	-	Pooled investments	1,209,533	-	-
189,360	-	-	Pooled property investments	192,773	-	-
51,910	-	-	Infrastructure	58,898	-	-
10,984	-	-	Commodities	11,998	-	-
-	-	-	Multi Asset	1,297	-	-
983	-	-	Derivative contracts	294	-	-
-	45,273	-	Cash with Custodian	-	58,468	-
-	977	-	Cash	-	-	-
35,905		-	Other investment balances	80,284	-	-
-	8,953	-	Debtors		9,780	-
2,055,417	**55,203**	**-**		**2,363,144**	**68,248**	**-**
			Financial liabilities			
(30)	-	-	Derivative contracts	(1,196)	-	-
(35,147)	-	-	Other investment balances	(81,629)	-	-
-	-	(4,372)	Creditors	-	-	(4,291)
(35,177)	**-**	**(4,372)**		**(82,825)**	**-**	**(4,291)**
2,020,240	**55,203**	**(4,372)**		**2,280,319**	**68,248**	**(4,291)**

16b. Net gains and losses on financial instruments

31 March 2012		31 March 2013
£000		**£000**
	Financial assets	
17,595	Fair value through profit and loss	256,473
46	Loans and receivables	(843)
	Financial liabilities	
40	Fair value through profit and loss	870
17,681		**256,500**

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.

31 March 2012 Carrying value £000	31 March 2012 Fair value £000		31 March 2013 Carrying value £000	31 March 2013 Fair value £000
		Financial assets		
2,055,417	2,055,417	Fair value through profit and loss	2,363,144	2,363,144
55,203	55,203	Loans and receivables	68,248	68,248
2,110,620	**2,110,620**	**Total financial assets**	**2,431,392**	**2,431,392**
		Financial liabilities		
(35,177)	(35,177)	Fair value through profit and loss	(82,825)	(82,825)
(4,372)	(4,372)	Financial liabilities at amortised cost	(4,291)	(4,291)
(39,549)	**(39,549)**	**Total financial liabilities**	**(87,116)**	**(87,116)**

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 2013	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	1,916,787	218,996	227,361	2,363,144
Loans and receivables	68,248	-	-	68,248
Total financial assets	**1,985,035**	**218,996**	**227,361**	**2,431,392**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(82,825)	-	-	(82,825)
Financial liabilities at amortised cost	(4,291)	-	-	(4,291)
Total financial liabilities	**(87,116)**	**-**	**-**	**(87,116)**
Net financial assets	**1,897,919**	**218,996**	**227,361**	**2,344,276**

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 assets	**1,667,323**	**203,206**	**200,542**	**2,071,071**

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 Investment Panel. 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 from 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 2013/14 reporting period:

Asset Type	Potential Market Movements (+/-)
Bonds	11.0%
UK equities	16.0%
Overseas equities	19.0%
Overseas equity unit trusts	19.0%
Pooled property investments	15.0%
Private Equity	28.0%
Infrastructure funds	16.0%
Commodities	14.0%
Cash	1.0%

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 2013**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
Cash and cash equivalents	58,468	1.0	59,053	57,883
Investment portfolio assets:				
Total Bonds	221,249	11.0	245,587	196,912
UK equities inc Private Equity	898,666	16.0	1,042,452	754,879
Overseas equities	387,580	19.0	461,220	313,940
Overseas equity unit trusts	510,105	19.0	607,025	413,185
Pooled property investments	192,773	15.0	221,689	163,857
Infrastructure funds	58,898	16.0	68,321	49,474
Commodities	11,998	14.0	13,678	10,318
Multi Asset	1,297	-	1,297	1,297
Net derivative assets	(903)	-	(903)	(903)
Investment income due	2,410	-	2,410	2,410
Amounts receivable for sales	714	-	714	714
Amounts payable for purchases	(1,769)	-	(1,769)	(1,769)
Total assets available to pay benefits	**2,341,486**		**2,720,774**	**1,962,197**

Asset Type	**Value as at 31 March 2012 (Restated)**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
Cash and cash equivalents	45,273	1.0	45,635	44,911
Investment portfolio assets:				
Total Bonds	194,445	11.0	207,667	181,223
UK equities inc Private Equity	759,634	16.0	872,819	646,448
Overseas equities	319,062	19.0	366,283	271,841
Overseas equity unit trusts	493,135	19.0	570,064	416,206
Pooled property investments	189,360	15.0	194,473	184,247
Infrastructure funds	51,910	16.0	55,959	47,861
Commodities	10,984	14.0	10,984	10,984
Net derivative assets	953		953	953
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	**2,066,886**		**2,326,967**	**1,806,804**

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 2013 and 31 March 2012 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 2013**
	£000	**£000**
Cash with Custodian	45,273	58,468
Cash balances	977	(176)
Fixed interest securities		
UK bonds	165,992	156,837
Total	**212,242**	**215,129**

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 100 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 +/- 100 BPS change in interest rates:

Asset type	**Carrying amount as at 31 March 2013**	**Change in year in the net assets available to pay benefits**	
		+ 100 BPS	**- 100 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents	58,468	585	(585)
Cash	(176)	(176)	176
Fixed interest securities			
UK bonds	156,837	1,568	(1,568)
Total change in assets available	**215,129**	**1,977**	**(1,977)**

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 balances	977	10	(10)
Fixed interest securities			
UK bonds	165,992	1,659	(1,659)
Total change in assets available	**212,242**	**2,122**	**(2,122)**

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 2013 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2012	Asset value as at 31 March 2013
	£000	£000
Overseas Index Linked	28,453	29,307
Overseas quoted securities	319,062	387,580
Overseas unit trusts	493,135	510,105
Total overseas assets	**840,650**	**962,992**

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 2013	Change in year in the net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	29,307	33,117	25,497
Overseas quoted securities	387,580	437,965	337,194
Overseas unit trusts	510,105	576,419	443,792
Total change in assets available	**962,992**	**1,047,501**	**806,483**

Currency exposure - asset type	Asset value as at 31 March 2012	Change in year in the 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**

Summary	**Asset value as at 31 March 2012**	**Asset value as at 31 March 2013**
	£000	**£000**
Money Market Funds		
NTGI Global Cash Fund	44,823	57,762
Bank Deposit Accounts		
Non NT Cash Accounts	7	9
Bank Current Accounts		
NT Custody Cash Accounts	443	697
Total Overseas Assets	**45,273**	**58,468**

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 in recent years.

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 2013 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 2012/13

This statement has been prepared by **Hymans Robertson** 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 2012/13.

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 £1,869 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 2012/13 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 2012	31 Mar 2013
	£m	£m
Present value of Promised Retirement Benefits	2,557	3,043

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 2013 comprises £1,486m in respect of employee members, £533m in respect of deferred pensioners and £1,024m 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 2013 is to increase the actuarial present value by £325m.

Financial assumptions
My recommended financial assumptions are summarised below:

Year ended	31 Mar 2012 % p.a.	31Mar 2013 %p.a.
Inflation / Pension Increase Rate	2.5%	2.8%
Salary Increase rate*	4.8%	5.1%
Discount Rate	4.8%	4.5%

*Salary increases are 1% p.a. nominal for the three years to 31 March 2015 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 2012.

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 2012 £000		31 March 2013 £000
	Other Investment Balances	
33,667	Sales inc Currency	77,874
1,734	Investment Income Due	1,645
504	Recoverable Taxes	765
-	Managers' Fee Rebate	-
35,905		**80,284**

31 March 2012 Restated £000		31 March 2013 £000
	Current Assets	
7,712	Contributions receivable from employers and employee	7,879
1,241	Sundry Debtors	1,901
977	Cash	-
9,930		**9,780**

21. Current liabilities

31 March 2012 Restated £000		31 March 2013 £000
	Investment Liabilities	
33,711	Purchases including currency	80,034
1,373	Managers' Fees	1,595
63	Accrued Dividend Income	-

35,147	**81,629**

31 March 2012 £000		31 March 2013 £000
	Current Liabilities	
1,879	Pension Payments (inc Lump Sums)	1,197
-	Cash	176
25	Professional Fees	60
1,281	Admin/CBOSS Recharge	1,239
1,187	Sundry Creditors	1,619
4,372		**4,291**

22. Additional voluntary contributions

Market value 31 March 2012 £000		Market value 31 March 2013 £000
15,123	Prudential	14,948

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2012/13 some members of the pension scheme paid voluntary contributions and transfers in of £1.528m to Prudential to buy extra pension benefits when they retire. £2.235m was disinvested from the AVC provider in 2012/13 (£2.741m 2011/12). The combined value of the AVC funds at 31 March 2013 was £14.948m (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 £1.4m to the fund in 2012/13 (£1.3m in 2011/12). The Council’s contribution to the fund was £40.8m in 2012/13 (£41.6m in 2011/12). All amounts to the fund were paid in the year. At 31 March 2013, the Pension Fund bank account was overdrawn by (£0.176m). The average invested throughout the year was £1.2m and earned interest of £0.008m in 2012/13 (£0.028m in 2011/12).

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 2013 totalled £114.2m (31 March 2012: £120m).

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.

At 31 March 2013 the unfunded commitment was £109 million for private equity, and £5.2m 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. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2013.

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

Fifteen 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, pension's obligations in respect of 8 other admitted bodies are covered by:

- 5 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 2013 the Fund has contractual agreements of £255.3 million to private equity funds managed by Adams Street and Harbourvest. The Fund has also committed £14.4 million to the M & G UK Companies Financing fund and £58.1m to the infrastructure funds managed by UBS and M&G.

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 2012/13 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
Brighton Dome & Festival	24.1%	2,500	24.1%	3,000	24.1%	3
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 Archaelogical Society	21.5%	23,971	21.5%	25,122	21.5%	26,328
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
Transferee Admission Bodies						
Amey	-		26.8%		26.8%	
Churchill Contract Services Ltd	20.9%		20.9%		20.9%	
ESCC – Churchill	-		18.0%		18.0%	
ESCC _ Keir	-		-		25.2%	
Convex Leisure	18.7%		-		-	
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%	
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%		-	
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%	1.2
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%		-		-	
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%	
Newick Parish Council	-		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%	
Westham Parish Council	-		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	17.5%	411	17.5%	473
Scheduled Bodies - Academies						
Aurora Academies Trust	-		18.7%	16.7	18.7%	17.4
Beacon Academy	-		19.8%		20.1%	
Bexhill Academy	-		24.4%		24.4%	
BHCC Bilingual Primary School	-		22.0%		22.0%	
Brighton Aldridge Community Academy	17.4%		17.4%		17.4%	
Cavendish Academy	-		20.6%	9.3	20.6%	9.8
Eastbourne Academy	18.9%		18.9%		18.9%	
Glyne Academy	-		-		23.7%	
Hailsham Academy	-		20.9%		20.9%	
Hastings Academies Trust	18.1%		18.1%		18.1%	
Portslade Aldridge Community Academy	17.8%		17.8%		17.8%	
Ratton Academy	-		19.8%		20.1%	
Ringmer Academy	18.3%		18.3%		18.3%	
Rye Academy	-		24.5%		24.5%	
Seaford Academy	-		23.8%		23.8%	
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 85 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	**12.7**	**7.1**	**6.2**	**9.4**
Benchmark	**10.8**	**6.0**	**5.6**	**9.3**
Relative	**1.9**	**1.1**	**0.6**	**0.1**

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**12.7**	**7.1**	**6.2**	**9.4**
Local Authority Average	**13.8**	**8.1**	**6.5**	**9.4**
Relative	**-1.1**	**-1.0**	**-0.3**	**0.0**

The Fund underperformed the average local authority fund over the year by 1.1%, ranking the East Sussex Fund in the 74th percentile.

Over three years the fund underperformed by 1.0% and was placed 87th percentile 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 54th and 44th 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).

Amortisation

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

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.

Authorised Limit

This represents the legislative limit on the Council's external debt under the Local Government Act 2003.

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.

Business Rates Retention

Under the new Business Rates Retention scheme, Councils will retain a 50% share of all and any additional business rates they get above a determined baseline. This potentially provides a direct local incentive to encourage growth within local boundaries.

Capital / Capital Expenditure / Capital Receipts

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

Capital Charges

Amounts charged to service revenue accounts for the use of assets consisting of depreciation and amortisation.

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.

Currencies Table

Japanese Yen	JPY
British Pound	GBP
Canadian Dollar	CAD
Swiss Franc	CHF
European Euro	EUR
Swedish Kroner	SEK
United States Dollar	USD

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 Comprehensive Income & Expenditure Account, assessed as the amounts by which the value of property, plant and equipment are consumed during the year, calculated from the estimated life expectancy and any residual value.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

External Auditors

The auditor (BDO 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. Finance leases transfer substantially all the risks and rewards of ownership.

Lender Option Borrower Option (LOBO)

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

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.

Liabilities

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

Local Council Tax Support (LCTS)

As part of the major changes to the Welfare Benefits system, from 1st April 2013, Council Tax Benefit will end and is to be replaced by a new scheme called Localised Support for Council Tax or Council Tax Support. Both systems are means tested which means that they compare your income and capital against an assessment of your needs. The new scheme will largely be decided by each Council rather than nationally by Central Government (as now). Funding to each Council will be reduced and if you are of working age the amount of help you receive may be less than under the current scheme (Council Tax Benefit).

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.

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 Head of Accounts and Pensions,
P O Box 3
County Hall
Lewes, East Sussex
BN7 1UE

Or by email to finance@eastsussex.gov.uk

Financial Strategy and 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 five 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.

KPMG

cutting through complexity™

Value for Money conclusion 2012/13

East Sussex County Council

27 August 2013

Contents

The contacts at KPMG in connection with this report are:

Tamas Wood
Director
KPMG LLP (UK)

Tel: 020 7311 6458
tamas.wood@kpmg.co.uk

Samantha Maloney
Senior Manager
KPMG LLP (UK)

Tel: 01293 652062
samantha.maloney@kpmg.co.uk

216

Background and summary conclusion

This report summarises:

- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

217

Scope of this report

We are pleased to be appointed by the Audit Commission to provide the VFM conclusion for the year ended 2012/13 and to be your external auditor provider for 2013/14 financial statement and VFM work. BDO LLP will report separately on the 2012/13 financial statements.

VFM conclusion

Due to the timing of our appointment, we did not get the opportunity to present you with our plan for our approach to VFM work. In this report we have set out our approach and our conclusions.

Our risk-based approach to VFM work follows guidance provided by the Audit Commission. We have completed the necessary work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering where relevant the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Summary of conclusion

VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. There were no specific risk areas that required additional work in order to reach our conclusion. We anticipate issuing an unqualified VFM conclusion by 30 September 2013.

The remainder of this report is structured as follows:

- *Section two* illustrates our approach to this work
- *Section three* summarises the findings that support our conclusion

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

218

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below;

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details of our VFM risk assessment and our specific risk-based work.

VFM audit approach (continued)

We have followed a risk based approach which focused audit effort on the areas of greatest audit risk.

219

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we considered: ▪ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ information from the Audit Commission's VFM profile tool and financial ratios tool; and ▪ the work of the Audit Commission, other inspectorates and review agencies.

VFM audit approach (continued)

We formed an assessment of residual audit risk and identify areas where more detailed VFM work was required.

VFM audit stage	Audit approach
Review work performed by BDO	There is a degree of overlap between the work done as part of the VFM audit and the work for the financial statements audit. For example, the financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. BDO had already performed much of this work before we were appointed. We have always sought where possible to avoid duplication of audit effort by reviewing the work provided to us by BDO on their risk assessment process.
Assessment of residual audit risk	We are required to perform our own assessment of risk, therefore in addition to reviewing the work performed by BDO, we have held interviews with officers and the reviewed documents such as policies, plans and minutes.
Identification of specific VFM audit work	Where we identify residual audit risks, we highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. On the next couple of pages we highlight the risks BDO identified in their planning memo to you and our response to those risks.

VFM conclusion

BDO identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

221

Work completed

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Key findings

For completeness, we have captured below the VFM risks identified by BDO in the ESCC 2012/13 Audit Plan.

We have completed our own risk assessment work in line with the Code, including consideration of the matters highlighted by BDO.

We concluded that there were no residual risks to our VFM conclusions which required additional specific risk based work.

BDO identified key VFM risk	Risk description and link to VFM conclusion	KPMG assessment
Public health and Health and Wellbeing Board	Responsibility for public health transfers from the NHS to local authorities on 1 April 2013. At the same time, the Health and Wellbeing Board will assume its full statutory powers, bringing together all areas of local government, the NHS and the people of East Sussex. The shadow Board considered and agreed a consultation document setting out its proposed priorities for the next three years and the initial development of a Health and Wellbeing Strategy and action plan. The consultation closed in September and the majority of respondents support the proposed priorities. A final strategy for 2013-2016 was recently presented to Cabinet and a Health and Wellbeing Assembly was held in February 2013 to engage a wide range of partners in discussions around delivering the strategy and action plan over the next three years. A final action plan was presented to the Board in April 2013 for their consideration and approval.	Based on our risk assessment and enquires with officers, we are content the Authority is managing this issue. **Specific risk based work required: No**
Management restructure	The Council is currently going through a restructuring exercise to achieve efficiencies through consolidation of support services. The aim is to provide effective strategic planning and resource management and streamlined and consistent systems and processes, which enable a corporate approach to service commissioning and delivery and support the ability of managers to manage resources effectively.	Based on our risk assessment and enquires with officers, we are content the Authority is managing this issue. **Specific risk based work required: No**

VFM conclusion (continued)

BDO identified key VFM risk	Risk description and link to VFM conclusion	KPMG assessment
Medium term financial strategy	Government continues to reduce funding for local government over the Spending Review period, and combined with additional pressures arising from demographic and other changes, will have a significant impact on councils. Changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health, also brings added uncertainty to the medium term financial strategy. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	We have reviewed the Council's medium term financial plan to consider how it addresses these areas. **Specific risk based work required: No** A medium term financial plan exists and is subject to routine review. Following the latest settlement figures and in order to build in actual performance in 2012/13 and developments in service redesign plans, the council is currently refreshing the medium term financial strategy and will produce a 2014/15 – 2016/17 plan by January 2014. Based on the current plan, which covers the period 2013/14 – 2015/16, there is a significant savings requirement over the three year period in excess of £60m. The savings demand for 2013/14 of £21m is partly mitigated by the use of carry forward under-spend reserves providing some lead-in time for major savings initiatives. There is a planned savings requirement peak in 2014/15 of £31m. Many of these savings requirements are due to be delivered as an inherent part of service redesign programmes and new ways of working. In several cases, such as social care, these service redesign plans are underway but it will be quarter two of 2013/14 before the Authority can judge whether the programmes are likely to deliver the savings requirements and avoid additional demand and demography driven cost pressures. Early indications – including the 2012/13 under-spend in adult social care – are positive but continue to be an area of focus. The Authority continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Authority and earmarked reserves are strong. The Authority has also implemented a new policy for the reserving and prioritising of under-spends. We will continue to focus our attention on this area as the programmes develop over the next year.

Appendix 1: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

Appendix 1: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's review of the Authority's value for money conclusion.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the review of the value for money conclusion of East Sussex County Council for the financial year ended 31 March 2013, we confirm that there were no relationships between KPMG LLP and East Sussex County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

cutting through complexity™