Agenda Item 5

Report to:	**Audit, Best Value and Community Services Scrutiny Committee**
Date:	**5 September 2014**
By:	**Chief Operating Officer**
Title of report:	**Review of Annual Governance Reports and Statement of Accounts for 2013-14**
Purpose of report:	**For the Committee to review the Independent Auditor's (KPMG) reports to those charged with governance prior to its submission to the Governance Committee on 9 September 2014.**

RECOMMENDATIONS: The Committee is asked to:

(i) note the reports and its appendices; and

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

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1. Financial Appraisal

1.1 There are no direct financial implications arising from this report

2. Supporting Information

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

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

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

2.4 The Independent Auditor's (KPMG) report to those charged with governance and the Council's Statement of Accounts for 2013/14, along with the covering report under which they will be taken to Governance Committee for approval on 9 September 2014 are attached.

2.5 The final audit of the 2013/14 Statement of Accounts by our independent auditor (KPMG) has now been completed in relation to both the 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 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) subject to the conclusion of elector objections findings, did not feel it necessary to report on any particular points on value for money issues.

2.7 A small number of presentational adjustments 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. Areas considered for improvement include -

- Property, Plant and Equipment valuation methodology
- Review of the imprest accounts and SAP general ledger code.

2.8 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 2013/14 accounts;
- Whether the management response to those findings is appropriate;
- Whether there are any issues arising that Member might wish to bring to the attention of the Governance Committee when it meets to approve the Annual Governance report and Statement of Accounts for 2013/14 on 9 September 2014.

KEVIN FOSTER
Chief Operating Officer

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

Local Members: All

<u>Attached:</u>
Governance Committee report for approval on 9 September 2014
Appendix 1 - The Independent Auditor's (KPMG) report
Appendix 2 - 2013/14 Statement of Accounts
Appendix 3 - Letter of Representation

ANNEXE A

Agenda Item No.

Report to:	**Governance Committee**
Date:	**9 September 2014**
By:	**Chief Operating Officer**
Title of report:	**Independent Auditor's (KPMG) Annual Governance Reports and Statement of Accounts 2013/14**
Purpose of report:	**To present the Annual Governance Report, and to report an expected unqualified opinion on the 2013/14 Statement of Accounts**

RECOMMENDATIONS -

To:

(1) Note the Independent Auditor's (KPMG) Annual Governance Report on ESCC Accounts, and the Value for Money conclusion report

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

(3) Authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP.

(4) Approve the Statement of Accounts for publication.

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1. Financial Appraisal

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

2. Annual Governance Report

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

2.2 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.

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

3. Changes to ESCC Statement of Accounts

3.1 The Chief Finance Officer on 24 June 2014 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, a small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated on page 6 to 7 of the report to those charged with governance, and the Auditor has made recommendations, which have been discussed and responses included in the action plan where appropriate. Areas considered for improvement include -

- Property, Plant and Equipment valuation methodology
- Review of the imprest accounts and SAP general ledger code.

3.4 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) subject to the conclusion of elector objections findings, did not feel it necessary to report on any particular points on value for money issues.

3.5 The revised set of accounts reflecting all adjustment described above is attached as Appendix 2.

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 discussed and resolved as stated on page 8 of the report to those charged with governance.

5 Publication of Statement of Accounts

5.1 The legal deadline for publishing the 2013/14 accounts is the end of September 2014. Once the auditors have completed their work, a Letter of Representation (Appendix 3) needs to be signed by the Chief Finance Officer 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

Attached:

1. Independent Auditor's (KPMG) Annual Governance Reports for -
   - East Sussex County Council Accounts
   - East Pension Fund Accounts
   - Value for Money conclusion
2. 2013/14 Statement of Accounts
3. Letter of Representation

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Report to those charged with governance (ISA 260) 2013/14

East Sussex County Council

19 August 2014

Contents

The contacts at KPMG in connection with this report are:

Tamas Wood
Director
KPMG LLP
Tel: 020 73116458
tamas.wood@kpmg.co.uk

Samantha Maloney
Senior Manager
KPMG LLP
Tel: 01293 652062
samantha.maloney@KPMG.co.uk

Scott Walker
Assistant Manager
KPMG LLP
Tel: 0 1293 652167
scott.walker@kpmg.co.uk

Grant Slessor
Pension Fund Audit Manager
KPMG LLP
Tel: 0207 311 3849
grant.slessor@KPMG.co.uk

Samuel Dang
Pension Fund Assistant Manager
KPMG LLP
Tel: 0207 311 8861
sanuel.dang@kpmg.co.uk

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tamas Wood, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Council and the pension fund; and**
- **our assessment of the Council's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at East Sussex County Council ('the Council') in relation to the Council's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2013/14 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Council and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Council and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Council and the Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Council's financial statements ahead of the 30 September 2014 deadline. We will also report that the wording of your Annual Governance Statement accords with our understanding. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Council's Statement of Accounts and the Pension Fund Annual Report by 30 September 2014.
Audit adjustments	We are pleased to report that our audit of your financial statements did not identify any material adjustments. We have highlighted two issues with the Council's current revaluation methodology which mean the Council's property, plant and equipment balance sheet value is likely to be undervalued at 31 March 2014. Management have concluded that the balance is unlikely to be materially misstated. There would be no impact on the general fund. More detail is set out on page 7. In addition to our recommendation in relation to the matter highlighted above, we have also raised a couple of low level house keeping points. All recommendations are summarised in Appendix 1.
Key financial statements audit risks	We review risks to the financial statements of the Council and the Fund on an ongoing basis. We identified no significant risks specific to the Council or the Fund during 2013/14 with respect to the financial statements.
Accounts production and audit process	The Council has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Council addressed the issues appropriately.
Control environment	Based on our limited work we perform the Council's organisational control environment is effective overall, and we have not identified any significant weaknesses in the controls we consider in certain financial systems.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Post balance sheet events review; ■ Final review of financial statements; and ■ Review of the final Annual Governance Statement. We are also investigating an elector objection to the accounts. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements. A full statement is included in Appendix 2.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion and risk areas	Subject to the findings of our review into elector objections, we are minded to conclude that the Council 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. Subject to concluding our work on elector objections we anticipate issuing the VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

We have identified no issues in the course of the audit of the Council's financial statements that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts by the Scrutiny Committee for Audit, Best Value and Community Services on 5 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit of the Council's financial statements was set at £18m. Audit differences below £900,000 are not considered significant.

We did not identify any material misstatements.

We have highlighted later in this report two issues with the Council's current revaluation methodology which mean the Council's property, plant and equipment balance sheet value is likely to be undervalued at 31 March 2014. Management have concluded that the balance is unlikely to be materially misstated. In the absence of formal valuations, it is difficult to estimate the undervalue. High level estimates put the undervalue in the region of £10m which is just below our materiality level. There would be no impact on the general fund. More detail is set out on page 7.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Council Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Council will be addressing these where significant.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £49.6 million. Audit differences below £1.8 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Scrutiny Committee for Audit, Best Value and Community Services on 5 September 2014.

Pension Fund Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Key financial statements audit risks

Professional standards require us to consider two standard risks for all organisations.

Management override of controls – we have no concerns to report.

Fraudulent revenue recognition - we rebutted this risk and did not perform any specific work in this area over and above our standard fraud procedures.

In our External Audit Plan 2013/14, presented to you in March, we identified the areas of audit focus affecting the Council's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the areas that are specific to the Council. The first three areas relate to the audit of the Council's financial statements, and the last one is specific to those of the Fund.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Area of focus	Issue	Findings
Cash	Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements. This risk affects only the Council.	We have obtained bank confirmations over account balances and have reviewed and tested the controls over bank reconciliations. Our testing highlighted one recommendation around historic reconciling items which need to be cleared down. Due to the size of these reconciling items, it has not resulted in an audit misstatement , but we felt this should be communicated as a recommendation, see Appendix 1.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.

Area of focus	Issue	Findings
	The Council has a significant asset base primarily relating to Land and Buildings and Investment property. Given the high level of judgement and uncertainty, there is potential for impairment/valuation changes. This risk affects only the Council, not the pension fund.	To seek assurance property, plant and equipment is reasonably stated we have performed the following audit procedures: • Reviewed management's assessment of property valuations and impairment calculations to gain assurance they are reasonably stated; • Considered the valuer's report and tested to confirm the valuation and accounting entries of the assets valued are correctly stated; • Compared the assumptions made by the valuer to benchmarks for consistency; and • Substantively tested capital additions and disposals for accuracy and completeness. Our work has highlighted two matters to bring to your attention: *1. Valuing PPE at the beginning not the end of the accounting period–* The Council's current policy is to value 20% of PPE assets as at 1 April and then include that value as the balance sheet value as at 31 March. This time difference means the value could be impacted by a rising or falling market resulting in an over or under statement of value at 31 March. *2. Not revaluing all assets in the same class* – your current policy is to revalue 20% of the Councils asset base on a five year rolling cycle. This five year cycle is acceptable and common practice. However, a recent development in CIPFA accounting guidance has highlighted that within this cycle any one class of assets (for example schools) must be revalued on a shorter time scale to avoid selective revaluations and to avoid different valuation methods and timings within the same class of asset. Your current arrangements do not achieve this, though it is simple to realign the asset valuation cycle to meet the requirement. We note that the Council is considering moving to a three year rolling cycle rather than the current five years which is one way to achieve this. The result of the above two matters is that it is likely that the Council's Property plant and equipment (PPE) is undervalued in the balance sheet at 31 March 2014 though there would be no impact on the general fund. Given the nature of these assets it is difficult in the absence of a valuation to determine the likely undervalue. Management have made a judgement that the undervalue is unlikely to be material and we will seek a specific management representation on this point. We have calculated high level estimates and agree that the undervalue for the 20% of assets valued this year is unlikely to materially misstate the accounts. We have raised a recommendation that the revaluation methodology be revisited in light of the changes to the code.

Key financial statements audit risks (continued)

Area of focus	Issue	Findings
Pension Costs and Liabilities	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This risk affects both the Council and the Fund.	We have reviewed the information provided to the actuary by the Council and the actuarial valuation. This has not identified any significant issues. We have also compared the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and conclude that the assumptions used are consistent with these.
LGPS Triennial Valuation	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of Pension assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. This risk affects both the Council and the Fund.	We reviewed the basis of the source data supplied to the pension fund administering authority including how information from outside admitted bodies is received. We have completed our separate audit of the pension fund and no issues have been identified as a result of this work. Based on the work above no issues have been identified to bring to your attention.

Accounts production and audit process

The Council has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Council has good financial reporting arrangements in place. In particular it is noted officers have identified technical or subjective areas throughout the year and liaised with us to consider the implications for financial reporting. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2014. It is also worth noting that the Council has made efforts to streamline the accounts and make them more user friendly, for example reducing the length from 140 to 120 pages.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 17 March 2014 and discussed with Ola Owolabi, Head of Accounts and Pensions, set out our working paper requirements for the audit. The quality of working papers met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have followed up the Council's progress in addressing the recommendation in last year's ISA 260 report produced by the BDO.

The BDO's 2012/13 ISA 260 report raised three observations and recommendations, two where identified previously by internal audit and we have not looked to duplicate the work of internal audit in this report.

The remaining observation was in relation to authorisation of manual journals. Following the September 2013 Audit, Best Value and Community Services Scrutiny Committee meeting, Officers performed a detailed review and assessment of their journal authorisation process and have presented a separate paper to committee which reaffirms that they are satisfied with the current processes. We concur with this assessment and consider the matter closed.

Control environment

The Council's organisational and control environment is effective, and controls over the key financial systems are sound.

During March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented.

We do not complete detailed testing of these controls. However, based on what we have tested/seen we have found that your organisational control environment is effective overall and through testing were able to place reliance on a number of core financial systems.

Controls over key financial systems

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

We identified a couple of minor areas for further improvement. Our testing over the cash at bank and accounts receivable has identified instances whereby old items could and should be cleared out. We have recommended a housekeeping exercise be performed on the balance sheet, this would ensure that all old and unnecessary items are reconciled and removed from the ledger. Though we have found no evidence or specific concerns, regular reviews and tidy up of the balance sheet can reduce the risk of fraud or error.

Details of the recommendations are included in Appendix 1.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's and the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of East Sussex County Council and Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and East Sussex County Council and Pension Fund , 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.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Marion Kelly for presentation to the Scrutiny Committee for Audit, Best Value and Community Services. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2013/14 financial statements.

VFM conclusion

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

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

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

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

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

As highlighted in our report last year on VFM you still have challenging years ahead of you, saving will become harder to identify. A further £70m-£90m of savings are required to be made in the period 2016/17 – 2018/19, you are now starting work on identifying those future savings and preparing your Medium term financial plan (MTFP) for 2016/17 and 17/18 and beyond.

We will continue to focus our attention on this area as the programmes develop over the next year.

The Council continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Council and earmarked reserves are strong. The Council has also implemented a new policy for the reserving and prioritising of under-spends.

Conclusion

We have concluded that the Council 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	✓

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Valuation Methodology** As set out on page seven the Council's current revaluation methodology should be updated to improve the accuracy of the closing balance sheet PPE values in any given year. There are two points of improvement to be considered: 1. The date at which the valuation is performed, which should be the year-end 31 March not the start of the year 1 April; and 2. Ensuring that the timeframe over which any one class of asset is revalued is shortened to minimize the risk of selective revaluation and different valuation judgments being applied to the same class of asset. **Recommendation** We recommend that the methodology is revisited and changes adopted ahead of the next reporting period.	The Council has put a plan in place to continue to revalue on a rolling cycle but with a higher frequency of every 3 years to satisfy the code requirements, and the accounting policy regarding the date at which the annual asset valuation is performed will be amended to 31 March valuation date. **Responsible Officer** Head of Accounts and Pensions; **Due date** November 2014

Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	**General Housekeeping** During our audit testing, we noted some general housekeeping points: • Within the imprest bank account reconciliations there were a number of old, non-cash reconciling items. These items should be reviewed and cleared down. The total value of these items is not material or above our trifling level, and as such we have not proposed an audit adjustment. A full review of the reconciling items should be undertaken and we have passed details to your internal audit function to ensure there is no risk of cash misappropriation. • We also noted that on the receivables ledger, there are a large number of high value debits and credits relating to previous years journals. These contra to nil. We understand that these debits and credits are a function of the current accounting processes. We recommend that the systems and processes should be reviewed along with the accounts system functionality, to ensure that an exercise of regular review and clearing out of old items within the balance sheet can be performed in line with best practice and reduces the risk of fraud and error. **Recommendation** An exercise should be undertaken to review all balance sheet control accounts and old and irrelevant entries should be clear down.	Agreed. General housekeeping will be carried-out focusing on relevant imprest accounting entries and account receivable SAP ledger codes to ensure that all balance sheet control accounts and previous accounting entries status are ascertained. **Responsible Officer** Head of Accounts and Pensions; **Due date** October 2014

Appendix 2: 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 Council.

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, in carrying out their audit of the financial statements, 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 Scrutiny Committee for Audit, Best Value and Community Services.

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 Engagement Lead and the audit team.

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.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

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 audit of the financial statements of East Sussex County Council and Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and East Sussex County Council and Pension Fund, 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™

East Sussex County Council

Statement of Accounts

2013/14

Contents **Page**

Additional Information

In addition to the Statement of Accounts, financial information can be gathered from the County Council's agendas and other publications, which are on display in the major public libraries in the County. Information on the County Council's budget and finances can also be found on the website, www.eastsussex.gov.uk.

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

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

or by email to: finance@eastsussex.gov.uk

Notes to the Accounting Statements Index

Foreword

Statement of Accounts

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

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

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

- Foreword - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2013/14.
- The Statement of Responsibilities – this details the responsibilities of the Council and the 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, KPMG 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 2013/14. However, any significant events or developments that occur between 31 March 2014 and the date on which the Statement of Accounts is signed by the 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 – this 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 2013/14, assets, and liabilities as at 31 March 2014.
- 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 2013/14 (the Code) highlights the following key updates/changes in accounting practice:

- Post-employment benefits – extensive revisions to reflect the 2013/14 Code changes to the classification, recognition, measurement and disclosure requirements.
- Accounting for business rates retention – a new section has been included to provide guidance on the accounting requirements for the localisation of business rates in England.
- Dedicated Schools Grant (DSG) – the most current disclosures for DSG are provided in accordance with statutory reporting requirements.
- Presentation of Financial Statements to reflect the amendments (IAS 1) to the Comprehensive Income and Expenditure Statement.
- Service Concession Arrangements (PFI and PPP Arrangements) to ensure that its provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets.

- The Carbon Reduction Commitment (CRC) Energy Efficiency scheme updated for the accounting requirements of 2013/14 Code.
- Following the CIPFA/LASAAC Post Implementation Review of IFRS the Guidance Notes have been enhanced to address areas where uncertainty was identified:
    - clarification regarding the frequency of revaluations for Property, Plant and Equipment, based on the wording of IAS 16
    - enhancement of the recognition requirements for non-current assets held for sale
    - Leases and Lease Type Transactions

Financial Report

Setting the Revenue Budget for 2013/14 – 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 challenges 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.

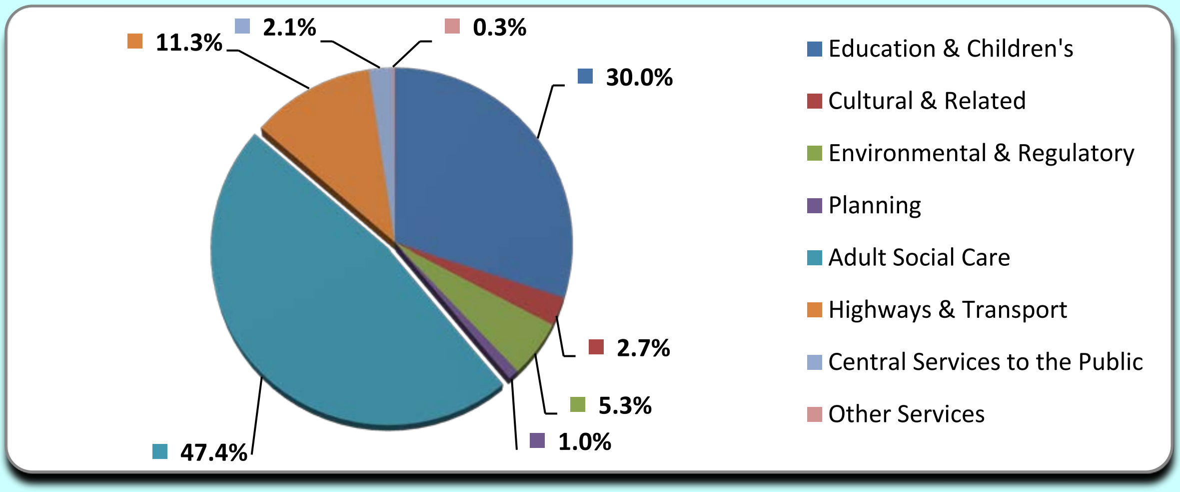
All these building blocks are delivered through processes involving appropriate Corporate Management Team (CMT) / Cabinet / Council discussion and decision. Work started on developing the draft budget strategy for 2013/14 during the summer of 2012. This involved officers and Cabinet Members together looking at overall Council expenditure.

The final revenue budget for 2013/14 was presented to Council in February 2013. Overall, the budget set for 2013/14 targeted growth to our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

So how much was spent on the revenue account

The Comprehensive Income and Expenditure Statement (CIES) at page 18 show how the Council money is spent and where the money comes from, as summarised in the charts below.

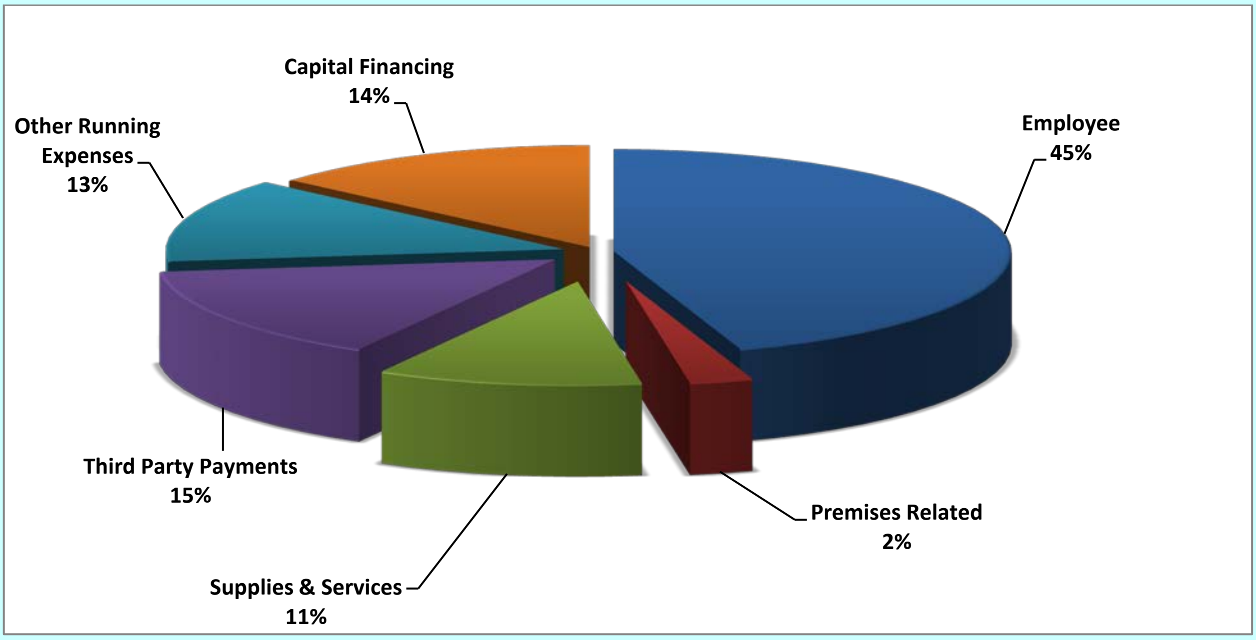
The Services Provided – Analysis of expenditure



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

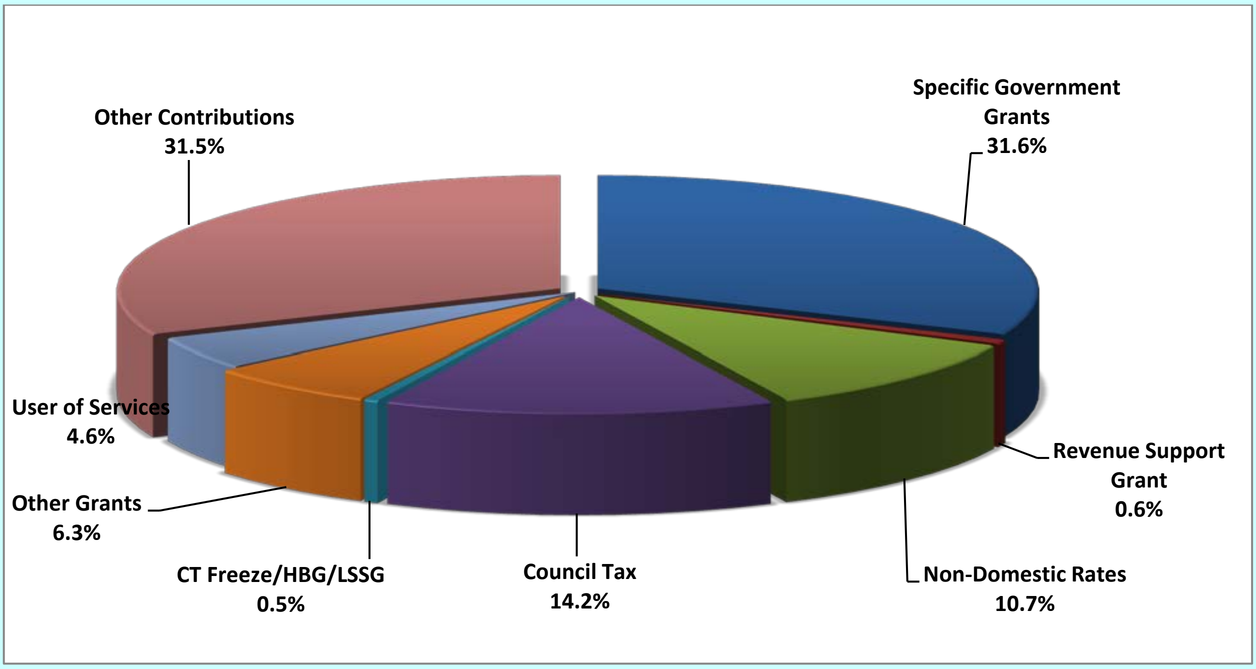
In total, our net revenue expenditure was £390.81m. The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 45% of the expenditure. Running expenses including costs of premises at 2%, supplies and services at 11%, and third party payments account for 15% with other expenses running at 13%, Capital financing (the cost of borrowing, interest and repayments) and accounting for on-going Private Finance Initiative (PFI) within the ESCC Balance Sheet accounts for the remaining 14%.

Where the money came from



The chart shows that 32% of our income came from Specific Government grants, RSG at 0.6%, 14% came from residents through the council tax, 17% from general grants, including business through the Non-Domestic rates, and 36.4% of our income came from users of our services and other contributions.

Analysis of the Revenue Budget

The Council's 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 below shows actual spending of £390.8m during 2013/14, based on the total cost of providing services including charges for support services, treasury management, and use of assets. The current estimate of service spending and the net budget for the year was £398.41m, with total actual expenditure of £398.47m, i.e. services overspend of £0.06m.

There is a net total underspend of £3.26m on the Revenue Budget (including central budget underspend and treasury management activities) represents 0.8% of the current budget. Throughout 2013/14, 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 over/underspends to assess the medium term implications. During this period of austerity, sound financial management is essential to ensure long term success and stability. The £3.26m revenue underspend, which has been transferred into a specific reserve 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 2.27%) of the net revenue budget set by the Council.

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

The table below sets out the revenue budget for 2013/14 using the standard management reporting format and how these compare with outturn:

Departments	**Current Estimate**	**Actual Outturn**	**Variation**
	£m	**£m**	**£m**
Adult Social Care	189.54	190.14	(0.60)
Public Health	0.15	0.15	-
Governance and Community Services	3.71	2.84	0.87
Children's Services Department	118.38	117.67	0.71
Business Services Department	0.59	0.94	(0.35)
Communities, Economy, and Transport	86.04	86.73	(0.69)
Service Spend (incl. DSG Related)	**398.41**	**398.47**	**(0.06)**
Treasury Management, etc.	(6.14)	(7.66)	1.52
Net Expenditure	**392.27**	**390.81**	**1.46**
Transfers into Specific Reserves	-	3.26	(3.26)
Net Budget	**392.27**	**394.07**	**(1.80)**
Financed from:			
Revenue Support Grant	98.57	98.57	-
Business Rate Top-up	54.70	54.70	-
Business Rate Retention	10.88	11.03	0.15
Council Tax	213.58	213.58	-
Adjustments for earlier years	1.92	1.92	-
Education Services Grant (ESG)	6.80	7.04	0.24
Council Tax Freeze Grant	2.42	2.44	0.02
Council Tax Transition Grant, etc.	1.00	2.39	1.39
Local Services Support Grant (LSSG)	1.10	1.10	-
New Home Bonus Grant	1.30	1.30	-
	392.27	**394.07**	**1.80**
Balances:			
Opening	8.9	8.9	
Added / (withdrawn) during the year	-	-	
Closing	**8.9**	**8.9**	

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's reserves policy supports the Council's strategic agenda and 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 planned on a unified organisation response.

Details of the Council's earmarked reserves can be found on page 43, Note 9 to the Accounting Statements. Current earmarked reserves held at 31 March 2014 totalled £146.4m. Of this £51.1m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, and £30.9m relates to services revenue grants and contributions set aside for future years. 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.

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 Capital Programme

In 2013/14 the County Council spent £104.4m gross (£50.2m net of external funding) on its roads, schools, and other capital projects. The original budget at the start of the year was £171.3m. Any budget not spent in the previous year due to project delays is brought forward at the start of the year and added to this amount.

During the financial year the capital programme was subject to a thorough review and where necessary projects were re-profiled. These changes were submitted to Council for approval as part of the 2014-15 budget setting. The variations formed the revised budgets against which future monitoring took place. The programme is also revised through formal approved variations as and when better information becomes available or further external funding secured. The final revised budget for the year was £125.1m of which £59.7m was supported by scheme specific resources giving a net budget provision of £65.4m.

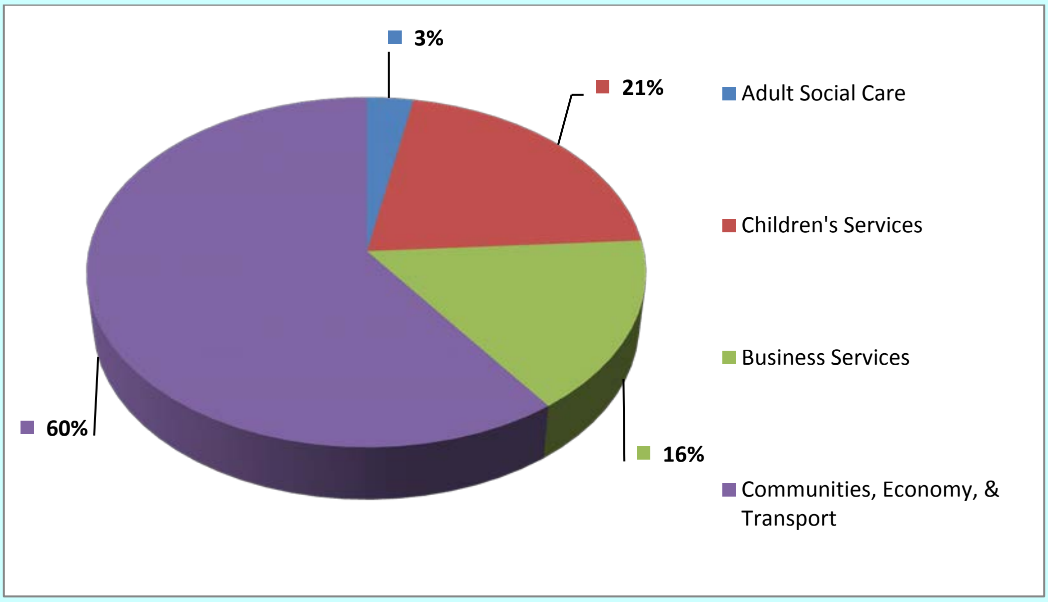
The net underspend of £15.1m compared to the revised net budget represents the deferral of the Local Authority Mortgage scheme and a number of scheme delays such as the adverse weather impact on the Bexhill to Hastings Link Road and the need to seek revised planning permission following retrospective re-engineering of projects such as the Mobile Replacement programme.

The larger schemes that took place during the year included the Bexhill & Hastings Link road, Warwick House redevelopment and other structural maintenance of roads throughout the county and many other improvements to schools and roads.
During 2014/15 the County Council plans to invest £179m, the planned funding for this is:

	£m
Borrowing	28.1
Scheme Specific grants and contributions	33.3
Non specific grants	54.6
Capital Receipts	10.2
Use of reserves	27.0
Revenue contributions	25.8
Total resources	**179.0**

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



East Sussex Pension Fund

During the year to 31 March 2014, the overall increase in the Fund due to positive performance in equity and other markets was estimated to be 6.2% compared to the average estimated increase in Local Authority funds of 6.3% 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 £357.6m at the start of the year to £425.3m at 31 March 2014. Note 44 to the accounting statements provide detailed information.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2013, the actuary assumed a discount rate of 1.7% real (4.5% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2014, the actuary has advised that a rate of 1.5% real (4.3% nominal) is appropriate. The change in the real discount rate over the year has resulted in an increase in liabilities measured at today's prices of around £30.8m, included in the actuarial loss recognised for the year in the Movement in Reserves Statement (MiRS).

- The demographic assumptions adopted to assess the liabilities as at 31 March 2014 have been updated to reflect the assumptions made at the 2013 actuarial valuation of the East Sussex Pension Fund. Application of these revised assumptions leads to an increase in liabilities measured at todays' prices of around £22.2m, included in the actuarial loss recognised for the year in MiRS.

- The assessment of the assets and liabilities as at 31 March 2014 is based on a roll forward from the 2013 actuarial valuation. This differs to the assessment made as at 31 March 2013, which was based on a roll forward from the 2010 valuation. This change has led to a reduction in the liabilities as at 31 March 2014 of around £28.8m and a reduction in the asset value as at 31 March 2014 of around £44m.

- Asset returns on the Fund in the year to 31 March 2014 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 6.2%, compared to the expected return on assets at the start of the year of 4.5%.

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 £467.5m, £231.1m and £554.0m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2014. There is also a liability of approximately £39.5m in respect of LGPS unfunded pensions and £45.9m 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 2013/14, agreed in February 2013 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 continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The revised strategy aims to secure investment income of at least 0.7% 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 has always adopted a prudent approach on its investment strategy and in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Council is able to invest at the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained. The 2013/14 revised strategy continues the prudent approach and ensures that all investments were only to the highest quality rated banks and only up to a period of two years.

The Council's Stewardship, Responsibilities and Financial Management Polices

The Council deals with considerable sums of public money. The Council's recently updated 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.

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 14 - 15.

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 2013/14 Audit Opinion and Certificate is available on pages 11 - 13.

Marion Kelly

Chief Finance Officer

9 September 2014

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the 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 Chief Finance Officer

The 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 2014.

In preparing this Statement of Accounts, the 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 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 2014.

Marion Kelly

Chief Finance Officer
9 September 2014

Independent Auditor's Report to East Sussex County Council

TO FOLLOW

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 (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

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 2014 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 on-going 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 action tracking arrangements and overall annual report and opinion;
- the external auditors in their audit annual letter and the report to those charged with Governance (ISA 260 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;
- 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 Procurement Standing Orders, Financial Regulations and Standard Financial Procedures;
- a 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.

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
9 September 2014

Becky Shaw,
Chief Executive
9 September 2014

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	Total Council Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2012 (Notes 25 and 26)	**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 25and 26)	**8,898**	**16,230**	**10,548**	**56,598**	**117,928**	**11,931**	**222,133**	**121,494**	**343,627**

Movement in Reserves Statement

	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves - General	Earmarked Reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2013 (Notes 25 and 26)	**8,898**	**16,230**	**10,548**	**56,598**	**117,928**	**11,931**	**222,133**	**121,494**	**343,627**
Movement in Reserves during 2013/14									
Surplus on provision of services	4,911	-	-	-	-	-	4,911	-	4,911
Other Comprehensive Income and Expenditure	-	-	-	-	-	-		(30,263)	(30,263)
Total Comprehensive Income and Expenditure	**4,911**	**-**	**-**	**-**	**-**	**-**	**4,911**	**(30,263)**	**(25,352)**
Adjustments between accounting basis & funding basis under regulations (Note 8)	10,489	-	(16)	(3,219)	-	-	7,254	(7,254)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**15,400**	**-**	**(16)**	**(3,219)**	**-**	**-**	**12,165**	**(37,517)**	**(25,352)**
Transfers to / (from) Earmarked Reserves (Note 9)	(15,400)	(1,153)	-	-	(2,432)	18,985	-	-	-
Increase / (Decrease) in Year	**-**	**(1,153)**	**(16)**	**(3,219)**	**(2,432)**	**18,985**	**12,165**	**(37,517)**	**(25,352)**
Balance at 31 March 2014 (Notes 25 and 26)	**8,898**	**15,077**	**10,532**	**53,379**	**115,496**	**30,916**	**234,298**	**83,977**	**318,275**

Comprehensive Income and Expenditure Statement

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

2012/13				2013/14		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
476,783	(358,473)	118,310	Education and children's services	443,748	(323,225)	120,523
10,723	(2,136)	8,587	Cultural & related services	13,405	(1,809)	11,596
56,775	(8,442)	48,333	Environmental & regulatory services	27,658	(5,809)	21,849
6,985	(3,890)	3,095	Planning services	11,393	(7,464)	3,929
242,372	(76,457)	165,915	Adult social care	251,789	(72,986)	178,803
-	-	-	Public Health	17,959	(17,793)	166
52,912	(8,736)	44,176	Highways and transport services	55,362	(10,640)	44,722
459	(193)	266	Housing services	758	(194)	564
2,899	(1,590)	1,309	Central services to the public	2,994	(1,729)	1,265
3,571	(97)	3,474	Corporate and Democratic Core	3,136	(74)	3,062
1,772	(331)	1,441	Non Distributed Costs	1,268	(730)	538
855,251	**(460,345)**	**394,906**	**Cost of Services**	**829,470**	**(442,453)**	**387,017**
85,505	-	85,505	Other operating expenditure - Notes 6 & 10	47,310	-	47,310
27,575	(3,159)	24,416	Financing and investment income and expenditure - Note 11	37,637	(1,862)	35,775
-	(430,257)	(430,257)	Taxation and non-specific grant income - Note 12	-	(475,013)	(475,013)
		74,570	**Deficit / (Surplus) on Provision of Services**			**(4,911)**
		(14,616)	Surplus on revaluation of non-current assets - Note 26			(22,430)
		58,751	Actuarial losses on pension assets or liabilities - Note 44			52,693
		44,135	**Other Comprehensive Income and Expenditure**			**30,263**
		118,705	**Total Comprehensive Income and Expenditure**			**25,352**

Note:

On 1 April 2013, the responsibility for commissioning public health services transferred from Primary Care Trusts (PCTs) to upper tier local authorities, i.e., East Sussex County Council.

Balance Sheet

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

31 March 2013			31 March 2014
£000		**Note**	**£000**
863,993	Property, Plant & Equipment	13	874,116
497	Heritage Assets	16	497
1,381	Investment Property	14	1,448
2,028	Intangible Assets	15	2,679
1	Long Term Investments	19	1
652	Long Term Debtors	21	1,615
868,552	**Long Term Assets**		**880,356**
270,719	Short Term Investments	19	286,174
1,423	Assets Held for Sale	20	3,846
4,382	Payments in Advance	21	4,124
-	Landfill Allowances	49	-
111	Inventories		121
45,990	Short Term Debtors	21	46,178
17,267	Cash and Cash Equivalents	22	18,655
339,892	**Current Assets**		**359,098**
(18,025)	Income in Advance	23	(18,506)
(7,055)	Short Term Borrowing	19	(5,407)
(21,327)	Bank overdraft and Accrued balance for third parties	22	(18,946)
(1,070)	Provisions	24	(2,492)
(82,033)	Short Term Creditors	23	(81,665)
(129,510)	**Current Liabilities**		**(127,016)**
(357,589)	Liabilities related to defined benefit pension schemes	44	(425,296)
(16,943)	Provisions	24	(14,775)
(262,943)	Long Term Borrowing	19	(258,989)
(4,038)	Capital Grants & Contributions Receipts in Advance	37	(4,425)
(93,794)	Other Long Term Liabilities	42	(90,678)
(735,307)	**Long Term Liabilities**		**(794,163)**
343,627	**Net Assets**		**318,275**
222,133	Usable Reserves	25	234,298
121,494	Unusable Reserves	26	83,977
343,627	**Total Reserves**		**318,275**

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2014 and its Comprehensive Income and Expenditure Statement for the year then ended.

Marion Kelly

Chief Finance Officer, 9 September 2014

The Governance Committee approved the Statement of Accounts on 9 September 2014.

Cash Flow Statement

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

2012/13 £000		2013/14 £000
74,570	Net (surplus) / deficit on the provision of services	(4,911)
(158,010)	Adjustments to net deficit on the provision of services for non-cash movements	(110,036)
67,100	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	81,521
(16,340)	Net cash inflow from Operating Activities (Note 27)	(33,426)
11,892	Investing Activities (Note 28)	23,507
4,268	Financing Activities (Note 29)	6,150
(180)	**Net increase in net cash and cash equivalents (Note 22)**	**(3,769)**
4,240	Net cash and cash equivalents at the beginning of the reporting period (Note 22)	4,060
4,060	**Net cash and cash equivalents at the end of the reporting period (Note 22)**	**291**

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 2014 is a net cash overdrawn position of £0.291m.

Notes to the Accounting Statements

1. Authorisation of the Statement of Accounts

Authorisation of Statement of Accounts - These accounts were authorised for issue by Marion Kelly, Chief Finance Officer, and the Statement of Accounts (approved on xx September 2014) is published with an audit opinion.

2. Accounting Policies

i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide legally binding guidance on Local Authority Accounting. The Statement of Accounts, which includes the accounting statements for East Sussex Pension Fund, summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14, 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. Revenue Recognition

The authority accounts for revenue recognition in accordance with IAS 18 Revenue and IPSAS 23 Revenue from Non Exchange transactions (Taxes and Transfers) except where adaptations to fit the public sector are detailed in the Code. Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

This accounting policy does not apply to revenue arising from lease agreements (see separate accounting policy for Leases). Revenue, except that for a financial asset, is measured at the fair value of the consideration received or receivable.

iv. 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.

v. 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.

vi. 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.

vii. 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.

viii. 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 General 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.

ix. 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 three separate 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.
- The NHS Pension Scheme administers NHS Pension

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 was 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 2013, the actuary assumed a discount rate of 1.72% real (4.5% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2014, the actuary has advised that a rate of 1.5% real (4.3% 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.

x. 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.

xi. Financial Instruments

Financial Liabilities

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

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

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

- *Modification* - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- *Early repayment of loans* - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Movement in Reserves Statement on the County Fund Balance, after debits and credits have been made to the 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 de-recognition 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.

xii. 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.

xiii. 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 ring fenced 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.

xiv. 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 re-valued 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 expected useful life is normally seven years. 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.

xv. 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.

xvi. 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.

xvii. 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.

xviii. 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 in 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 it 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.

xix. 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.

xx. 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 2013/14 (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.

xxi. 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.

Recorded as capital expenditure are 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 Department for Education 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 re-valued 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;

- De-recognition 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, part of the existing carrying value of the building would be derecognised and then the new roof recognised. It would then be depreciated (in the following year) over the useful economic life.

- For revalued assets (as part of the rolling programme), the individual valuation sheets produced by the external valuers would be compared 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, those percentages will be applied to the carrying value. If it does not conform to the beacon, revised percentages will be obtained;

- 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 are 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 re-valued 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 non current 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.

xxii. 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 re-valued 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.

xxiii. 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. See Note 2a for details of the prior period adjustment.

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.

xxiv. 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.

xxv. 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.

xxvi. 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.

xxvii. 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.

xxviii. 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.

xxix. 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.

xxx. 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 either CRC allowances prospectively or allowances being held for trading.

xxxi. 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 academy or 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.

xxxii. Council Tax and Business Rates

Business rates and council tax are 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 business rates and 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 arrears, bad debt allowances, overpayments, prepayments, cash and business rates appeal provision in its Balance Sheet.

xxxiii. 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 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 fair value 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 of donated assets. The Council does not (normally) make any purchases of archaeological items.

Heritage Assets – General

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2014. The following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- Group Accounts Suite of Standards
  - IFRS 10 Consolidated Financial Statements
  - IFRS 11 Joint Arrangements
  - IFRS 12 Disclosures of Interests in Other Entities
  - IAS 27 Separate Financial Statements (2011)
  - IAS 28 Investments in Associates and Joint Ventures (2011)

- IAS 32 *Financial Instruments: Presentation*
- IFRS 13 *Fair Value Measurement*
- IAS 1 *Presentation of Financial Statements* - (as amended in May 2011)

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.
- Leases - The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.
- 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 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' staffs 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' staffs 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	64	10	9	83
Voluntary Controlled	48	1	-	49
Voluntary Aided	28	2	-	30
Trust	3	-	-	3
Academies	9	13	1	23
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 the Council does not bear the risks and rewards of the arrangement.

- As at 31 March 2014 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.

- Waste PFI is a service concession arrangement and ownership of the Property, Plant and Equipment assets will pass to the Council at the end of the contract. Where assets are jointly owned, the Council recognises two thirds of the fair value and Brighton and Hove City Council one third.

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 2014 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 2013/14 is £37.6m and the net book value of property, plant and equipment at 31 March 2014 is £874.116m. 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 £1.1m for every 1 year that useful lives had to be reduced.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	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 2013/14 to the Surplus on Provision of Services is £14.7m and £5.8m 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 increase in allowance for bad debts set aside in 2013/14 is £0.478m.
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 2013/14, the Council's actuary advised that the net pension's liability has increased from £357.6m at the start of the year to £425.3m at 31 March 2014. Note 44 to the Accounting Statements provide detailed information.
Provisions and Reserves	The recognition of provisions involves assumptions about the probability, amount, and timing of an outflow of resources embodying economic benefits. To the extent that an outflow of resources embodying economic benefits is probable and a reliable estimate can be made, a provision is recognised. The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability. Insurance Provision & Reserve - This estimate of the potential liability is provided through an independent review undertaken according to standard actuarial techniques, (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 24.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 45.
Decommissioning 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 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 a set aside £10.0m provision (see Note 24), which it believes is appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.
Business Rates	Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2012-13 earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2014. The estimate has been calculated using the data provided by the five district authorities across East Sussex, using the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2014.	Business Rates appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2013/14 has been calculated at £0.487m.

6. Material items of income and expenses

The Council has disposed of the following property, plant and equipment from its Balance Sheet as eight Schools obtained academy status during 2013/14. This is included within losses on disposals of non-current assets of £46.8m (Note 10). The assets were transferred to the academies for no consideration and the amounts are recognised as losses on disposal.

School	Type of School	£000
Dudley, Hastings	Infant	851
Elphinstone, Hastings	Primary	3,479
Glyne Gap, Bexhill	Special	2,471
Helenswood. Hastings	Secondary	13,413
Pebsham, Bexhill	Primary	1,667
Red Lake, Hastings	Primary	2,717
West St Leonards, Hastings	Primary	2,145
William Parker, Hastings	Secondary	18,474
Total		**45,217**

7. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on xx September 2014. 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 2014, 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 2014 as they provide information that is relevant to an understanding of the Council's financial position, but do not relate to existing conditions at that date.

- Academy Schools – the following ten schools have or are expected to convert to Academy status in 2014/15. The net book value of their property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2014 are shown in the table below. All Saints, Marshlands and White House schools have been removed from the Balance Sheet in previous years as they are voluntary aided or trust schools that are subsequently converting to Academy status.

School	Type of School	Date of Conversion	£000
Tideway, Newhaven	Secondary	Apr 2014	11,273
All Saints, Hastings	Primary	Sep 2014	-
Blacklands, Hastings	Primary	Sep 2014	3,657
Churchwood, Hastings	Primary	Sep 2014	3,124
Hollington. Hastings	Primary	Sep 2014	5,171
Little Ridge, Hastings	Primary	Sep 2014	3,406
Marshlands, Hailsham	Primary	Sep 2014	-
Robsack Wood, Hastings	Primary	Sep 2014	2,573
White House, Hailsham	Primary	Sep 2014	-
Rye, Rye	Primary	Oct 2014	4,420
Total			**33,624**

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.

2013/14	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	52,335	-	-	(52,335)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the Comprehensive Income Expenditure Statement	(2,993)	-	-	2,993
Movements in the market value of Investment Properties	(67)	-		67
Amortisation of intangible assets	1,064	-	-	(1,064)
Capital grants and contributions applied	(82,935)	-	-	82,935
Revenue expenditure funded from capital under statute	14,617	-	-	(14,617)
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	48,608	-	-	(48,608)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(15,355)	-	-	15,355
Capital expenditure charged against the General Fund	(19,643)	-	-	19,643
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	3,219	-	(3,219)	-
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	(1,805)	1,805	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,821)	-	1,821
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	47,358	-	-	(47,358)
Employer’s pensions contributions and direct payments to pensioners payable in the year	(32,344)	-	-	32,344
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	(1,229)	-	-	1,229
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	(341)	-	-	341
Total Adjustments	**10,489**	**(16)**	**(3,219)**	**(7,254)**

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	67,194	-	-	(67,194)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the Comprehensive Income Expenditure Statements	(2,065)	-	-	2,065
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 Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited 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
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)**

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 2013/14.

Earmarked Reserves	Balance at 1 April 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	**29,120**	(48,208)	45,372	**26,284**	(20,088)	11,811	**18,007**
Corporate Waste	**70,465**	(38,387)	13,766	**45,844**	(8,284)	13,559	**51,119**
Service Development	**3,044**	(963)	2,053	**4,134**	(1,371)	992	**3,755**
Financing	**10,831**	(1,838)	4,824	**13,817**	(1,220)	2,500	**15,097**
Infrastructure	**6,241**	(3,303)	3,350	**6,288**	(708)	6,500	**12,080**
Insurance	**6,619**	(3,372)	1,384	**4,631**	(1,492)	1,958	**5,097**
General Risk	**500**	(3,712)	6,879	**3,667**	(750)	-	**2,917**
Schools	**652**	(21)	2,712	**3,343**	(1,218)	383	**2,508**
Service	**13,154**	(10,149)	3,291	**6,296**	(8,794)	4,081	**1,583**
Transformation	**223**	-	3,401	**3,624**	(291)	-	**3,333**
Sub-Total	**140,849**	**(109,953)**	**87,032**	**117,928**	**(44,216)**	**41,784**	**115,496**
Revenue Grants and Contributions	**7,772**	(7,772)	11,931	**11,931**	(11,979)	30,964	**30,916**
Total	**148,621**	**(117,725)**	**98,963**	**129,859**	**(56,195)**	**72,748**	**146,412**

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 reserve — This fund is to enable the Council to respond to the most urgent corporate service priorities 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 attached but are yet to be applied to expenditure. The Council has earmarked these revenue grants and contributions until they are 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 38.

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

	Balance at 1 April 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
Balances held by Schools	**16,756**	**(539)**	**13**	**16,230**	**(1,304)**	**151**	**15,077**

10. Other Operating Expenditure

	2012/13	2013/14
	£000	£000
Ashdown Forest Conservators	151	75
Sussex Sea Fisheries	300	301
Environment Agency (flood defence)	131	131
Losses on the disposal of non-current assets	84,923	46,803
Total	**85,505**	**47,310**

Note - The 2013/14 losses on the disposal of non-current assets figure of £46.80m (£84.92m 2012/13) 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

	2012/13	2013/14
	£000	£000
Interest payable and similar charges	22,010	21,647
Net interest on the net defined liability	5,559	16,058
Interest receivable and similar income	(2,856)	(1,395)
(Increase) / Decrease in Fair Value of Investment Properties	6	(67)
Surplus on Trading Undertakings	(303)	(468)
Total	**24,416**	**35,775**

12. Taxation and Non Specific Grant Income

	2012/13	2013/14
	£000	£000
Council tax income	243,127	217,132
Non domestic rates	112,266	54,299
Business Rate Retention	-	11,033
Revenue Support Grant	2,176	98,569
Education Services Grant (ESG)	-	7,045
Council Tax Transition Grant, etc.	-	2,392
Local Services Support Grant (LSSG)	1,684	1,095
Council Tax Freeze Grant	6,021	2,435
New Home Bonus	831	1,296
Capital grants and contributions	64,152	79,716
Total	**430,257**	**475,013**

Note

Council tax income includes £213.583m due in 2013/14 plus a council tax surplus adjustment amount of £3.151m.

Non domestic rate income includes £164.697m due in 2013/14 plus a non domestic rate deficit adjustment amount of £0.398m.

Local Services Support Grant is a general grant under Section 31 of the Local Government Act 2003. The Council has the freedom to use it to meet its locally identified priorities.

13. Property, Plant, and Equipment

Movements in 2013/14:	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 2013	**531,980**	**151,695**	**290,056**	**1,916**	**8,371**	**47,160**	**1,031,178**	**118,026**
Additions	17,083	5,345	25,432	13	-	40,193	88,066	73
Revaluation increases recognised in the Revaluation Reserve	18,593	913	-	-	1,663	-	21,169	354
Revaluation decreases recognised in the Revaluation Reserve	(5,674)	-	-	-	(84)	-	(5,758)	(1,143)
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	2,676	-	-	-	317	-	2,993	-
Revaluation decreases recognised in the deficit on the Provision of Services	(18,519)	(310)	-	-	-	-	(18,829)	-
Derecognition – disposals	(2,411)	(9,041)	-	-	(492)	-	(11,944)	-
Derecognition – academy & trust schools	(41,667)	(10,081)			-	-	(51,748)	-
Assets reclassified within PPE	(32,137)	31,813	-	-	324	-	-	-
Assets reclassified (to)/from Held for Sale	(1,009)	-	-	-	(1,910)	-	(2,919)	-
Other movements in cost or valuation – assets under construction	25,835	89	-	-	-	(25,924)	-	-
At 31 March 2014	**494,750**	**170,423**	**315,488**	**1,929**	**8,189**	**61,429**	**1,052,208**	**117,310**
Accumulated Depreciation and Impairment								
at 1 April 2013	**(32,977)**	**(27,765)**	**(105,845)**	**-**	**(598)**	**-**	**(167,185)**	**(5,936)**
Depreciation charge	(13,666)	(10,855)	(12,960)	-	(164)	-	(37,645)	(4,290)
Depreciation written out to the Revaluation Reserve	6,922	66	-	-	31	-	7,019	2,112
Revaluation losses recognised in the deficit on the Provision of Services	4,053	86	-	-	-	-	4,139	302
Assets reclassified to Held for Sale	64	19	-	-	17	-	100	-
Derecognition – disposals	161	8,759	-	-	29	-	8,949	-
Derecognition - Academy & Trust Schools	4,204	2,327	-	-	-	-	6,531	-
At 31 March 2014	**(31,239)**	**(27,363)**	**(118,805)**	**-**	**(685)**	**-**	**(178,092)**	**(7,812)**

Movements in 2013/14:	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*
Net Book Value								
at 31 March 2014	**463,511**	**143,060**	**196,683**	**1,929**	**7,504**	**61,429**	**874,116**	**109,498**
at 31 March 2013	**499,003**	**123,930**	**184,211**	**1,916**	**7,773**	**47,160**	**863,993**	**112,090**

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**

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*
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
Revaluation 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	-
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**

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, 2014/15 to 2017/18, the Council is planning to spend a gross capital expenditure of £339m. Part of this, some £40m 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 2014/15 the council plans to spend £160m, of which £27m is supported by scheme specific resources.

Having adjusted for actual outturn in 2013/14, slippage on projects and for provisions where there is no on-going commitment, the gross commitment profiles for schemes in progress at 1 April 2014 are shown below:

2014/15	2015/16	2016/17	2017/18	Total
£95.2m	£26.8m	£1.5m	£4.0m	**£127.5m**

Examples of the gross costs to the Council of completing some of the larger projects already underway at 31 March 2014 include:

Department/Scheme	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Adult Social Care					
Social Care Information System	2.1	1.2	-	-	3.3
Children's Services					
Eastbourne Primary Places & St Mary Magdalene	-	4.7	-	-	4.7
Communities, Economy & Transport					
Superfast Broadband	11.0	14.0	-	-	25.0
Bexhill to Hastings Link Road	37.7	5.4	0.8	3.7	47.6

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 – Montagu Evans (a member of Chartered Surveyors and Town Planners), on behalf of the Council. The valuation dates are as at 31 March in each year.

In addition to the valuation certificate, the Council external valuers produces the annual Impairment Report that analyses any price movements between the 1st April valuation date and the 31st March reporting date.

	Other Land and Buildings £000	**Vehicles, Plant, Furniture and Equipment £000**	**Surplus Assets £000**	**Total £000**
Valued at historical cost	-	33,851	-	33,851
Valued at fair value in:				
31 March 2014	85,676	21,386	3,297	110,359
31 March 2013	92,268	56,730	1,951	150,949
31 March 2012	151,789	25,393	1,757	178,939
31 March 2011	56,048	25,152	-	81,200
31 March 2010	108,969	7,911	1,184	118,064
Total Current Value	**494,750**	**170,423**	**8,189**	**673,362**

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:

	2012/13	2013/14
	£000	£000
Rental income from investment property	212	227
Total	**212**	**227**

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:

	2012/13	2013/14
	£000	£000
Balance at start of the year	1,381	1,381
Gains from fair value adjustments	6	159
Losses from fair value adjustments	(6)	(92)
Balance at end of the year	**1,381**	**1,448**

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 £1.064m charged to revenue in 2013/14 (£0.968m in 2012/13) was charged to the ICT – Business Services 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:

	2012/13	2013/14
	£000	£000
Balance at start of year:		
Gross carrying amounts	9,603	10,374
Accumulated amortisation	(7,378)	(8,346)
Net carrying amount at start of year	**2,225**	**2,028**
Purchases	680	1,715
Disposals*	91	-
Amortisation for the period	(968)	(1,064)
Net carrying amount at end of year	**2,028**	**2,679**
Comprising:		
Gross carrying amounts	10,374	12,089
Accumulated amortisation	(8,346)	(9,410)
	2,028	**2,679**

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

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

Description	Carrying Amount 31 March 2013 £000	Carrying Amount 31 March 2014 £000	Remaining Amortisation (Years)
New Microsoft Enterprise Agreement	101	76	3
SAP Software	859	27	-
ROCS ICT - Software	176	88	1
HRMS Financials	275	253	8
Desktop Anywhere 2012/13	617	529	6
Microsoft Exchange Server	-	179	7
Microsoft Enterprise Server	-	407	7
Special Education Needs & Disability	-	37	7
Library Management System	-	45	7
ICT Service Management Tool	-	116	7
SSA/RAS Developments	-	56	7
Carefirst	-	442	7
Atrium	-	71	7
On-line Payments	-	52	7
Web Content Management System	-	20	7
Desktop Anywhere 2013/14	-	281	7
	2,028	**2,679**	

- 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 with 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.
- SSA/RAS Developments – Supported Self Assessment/Resource Allocation System to assess care need.
- Carefirst – Adult Social Care and Children's Services client information.
- Atrium – Corporate Property Asset Management system.

16. Heritage Assets

The Council has identified the following heritage assets:

- East Sussex Record Office which preserves and makes accessible records relating to the County and its people;
- Schools Library and Museum Service (SLAMS) 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
Cost or valuation	**£000**	**£000**	**£000**
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**
Revaluation loss recognised in Deficit on Provision of Services	**-**	**-**	**-**
31 March 2014	**13**	**484**	**497**

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

Heritage Assets – Further Information

East Sussex Record Office, The Keep

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 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 and 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 and are not included in the Council's Balance Sheet as there is no cost or value information available and the cost of obtaining that information outweighs the benefits to the user of the Statement of Accounts. The assets are The Sugar Loaf folly, Dallington, Remains of Wayside Cross, Firle, Albert Memorial Well, Frant and Walls around Castle Precincts Car Park, Lewes

17. 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 2013/14, £14.617m (£39.726m in 2012/13) 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.

18. 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 2013/14, the Council has recognised a revaluation loss of £14.7m (£31.3m in 2012/13) in the Comprehensive Income and Expenditure Statement and £5.8m (£3.5m in 2012/13) 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. The reversal of revaluation losses taken to the Comprehensive Income and Expenditure Statement in 2013/14 totalled £2.993m (£2.065m 2012/13). The net charge to the Comprehensive Income and Expenditure Statement of revaluation losses less reversals was £11.697m (£29.225m 2012/13).

In 2012/13, waste assets were revalued downwards by £27.8m and charged to the waste disposal service (Notes 5 and 42 provide more details). The reduction in value is a result of the assets originally being recognised at their cost but their fair valuation now being updated and measured using a depreciated replacement cost approach.

19. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Financial Assets				
Investments				
Loans and receivables	1	1	270,719	286,174
Cash and Cash Equivalents	-		17,267	18,655
Debtors				
Loans and receivables	652	1,615	34,168	32,479
Total Financial Assets	**653**	**1,616**	**322,154**	**337,308**
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	(262,943)	(258,989)	(7,055)	(5,407)
Bank overdraft and accrued balance for third parties	-	-	(21,327)	(18,946)

	Long Term		Current	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Other Long Term Liabilities				
PFI and finance lease liabilities at amortised cost	(93,739)	(90,622)	-	-
Financial Guarantees at amortised cost	(54)	(55)	-	-
Long Term Creditors at amortised cost	(1)	(1)	-	-
Total Other Long Term Liabilities	**(93,794)**	**(90,678)**	**-**	**-**
Creditors				
PFI and finance lease liabilities at amortised cost	-	-	(3,053)	(3,116)
Financial liabilities at amortised cost	-	-	(66,365)	(65,028)
Total Financial Liabilities	**(356,737)**	**(349,667)**	**(97,800)**	**(92,497)**

Income, Expense, Gains and Losses

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)**

2013/14	**Financial Liabilities measured at amortised cost**	**Financial Assets: Loans and receivables**	**Total**
	£000	£000	£000
Interest expense	(21,647)	-	(21,647)
Total expense in Deficit on the Provision of Services	**(21,647)**	-	**(21,647)**
Interest income	-	1,395	1,395
Total income in Surplus on the Provision of Services	-	**1,395**	**1,395**
Net gain / (loss) for the year	**(21,647)**	**1,395**	**(20,252)**

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 2014 of 3.7% to 8.6% for loans from the PWLB and 3.7% to 4.4% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities at amortised cost

The fair values calculated are as follows:

	31 March 2013 Carrying amount £000	31 March 2013 Fair value £000	31 March 2014 Carrying amount £000	31 March 2014 Fair value £000
Borrowings	(269,998)	(345,171)	(264,396)	(316,875)
Bank overdraft and accrued balance for third parties	(21,327)	(21,327)	(18,946)	(18,946)
PFI and Finance Lease Liabilities at amortised cost	(93,739)	(93,739)	(90,622)	(90,622)
Financial Guarantee	(54)	(54)	(54)	(54)
Long Term Creditors	(1)	(1)	(1)	(1)
Current Creditors	(69,419)	(69,419)	(65,028)	(65,028)
Total	**(454,538)**	**(529,711)**	**(439,047)**	**(491,526)**

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 2014, 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

	31 March 2013 Carrying amount £000	31 March 2013 Fair value £000	31 March 2014 Carrying amount £000	31 March 2014 Fair value £000
Investments	270,720	270,720	286,174	286,174
Cash and Cash Equivalents	17,267	17,267	18,655	18,655
Debtors	34,820	34,820	34,095	34,095
Total	**322,807**	**322,807**	**338,924**	**338,924**

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.

20. Assets held for Sale

Current Assets Held for Sale	**2012/13 £000**	**2013/14 £000**
Balance outstanding at start of year	4,918	1,423
Assets newly classified as held for sale:		
Property, Plant and Equipment	675	2,820
Additions*	(16)	-
Revaluation gains recognised in Revaluation Reserve	-	-
Revaluation losses recognised in Provision of Services	-	-
Assets declassified as held for sale:		
Property, Plant and Equipment	(1,677)	-
Assets sold	(2,477)	(397)
Balance outstanding at year end	**1,423**	**3,846**

*The negative amount of £16,000 under Additions in 2012/13 relates to the Ore Centre and the over estimate of an additions creditor in the previous financial year.

21. Current & Long Term Debtors and Payments in Advance

	31 March 2013	31 March 2014
	£000	£000
Current Debtors		
Central Government Bodies	15,097	11,517
Other Local Authorities	14,252	14,058
NHS Bodies	4,178	434
Other Entities and Individuals	12,463	20,169
Total	**45,990**	**46,178**
Long Term Debtors		
Higher Education Institution	-	1,120
Other	655	495
Total	**652**	**1,615**

Allowance for debts impairment - The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. An increase in the provision for bad debt adjustment of £0.458m was made in 2013/14, (a reduction of £0.130m in 2012/13) bringing the total allowance for impairment to £1.197m at 31 March 2014. 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 & Business Rates debtors which are assessed by the District Councils in their role as Council Tax collection authorities. At 31 March 2014 the Council's share of these allowances amounts to £7.517m (£8.582m at 31 March 2013) out of its share of Council Tax & Business Rates debts totalling £15.831m (£14.252m at 31 March 2013).

Payment In Advance

	31 March 2013	31 March 2014	Movement
	£000	£000	£000
Leasing payments in advance	269	232	(37)
Other Local Authorities	54	-	(54)
Other Entities & Individuals	4,059	3,892	(167)
Total	**4,382**	**4,124**	**(258)**

22. Cash and Cash Equivalents, Bank overdraft and accrued balances for third parties

	31 March 2013	31 March 2014	Movement
	£000	£000	£000
Cash in hand	161	151	(10)
Short-term deposits	17,106	18,504	1,398
Total Cash and Cash Equivalents	**17,267**	**18,655**	**1,388**
Imputed cash adjustment for National Park Authority and Primary Care Trusts	(139)	(648)	(509)
Bank overdraft	(8,510)	(3,884)	4,626
Accrued balance at bank and for third parties	(12,678)	(14,414)	(1,736)
Total bank overdraft and accrued balance for third parties	**(21,327)**	**(18,946)**	**2,381**
Net cash and cash equivalent balances / (overdrawn)	**(4,060)**	**(291)**	**3,769**

Note 32 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:

	31 March 2013	31 March 2014
	£000	£000
East Sussex Fire Authority	(12,380)	(14,160)
Trust Funds	(298)	(254)
Accrued balance at bank and for third parties	**(12,678)**	**(14,414)**

The pooled bank balances at 31 March 2014 include £23.1m (£20.2m at 31 March 2013) relating to bank accounts operated by schools under local management arrangements.

23. Creditors and Income in Advance

Creditors

	31 March 2013 £000	31 March 2014 £000
Central Government Bodies	7,714	7,205
Other Local Authorities	8,088	7,783
NHS Bodies	1,762	2,758
Other Entities and Individuals	64,469	63,919
Total	**82,033**	**81,665**

Income in Advance

	31 March 2013 £000	31 March 2014 £000
Other Local Authorities	2,751	2,728
NHS Bodies	11,593	8,443
Other Entities and Individuals	3,681	7,335
Total	**18,025**	**18,506**

24. Provisions

Provisions are amounts set aside in the Accounting Statements for liabilities or losses which are certain or very likely to occur and for which a reliable estimate of the amount of the obligation can be made. The provision has been established for material liabilities of uncertain timing. The following table shows the level of the Council's provisions:

Long Term Provisions	31 March 2013 £000	Additional provisions £000	Amounts used £000	31 March 2014 £000
Insurance claims	4,190	2,474	(2,221)	4,443
Section 117 liabilities	800	-	-	800
Municipal Mutual Insurance (MMI)	2,247	-	(2,247)	-
Closed Landfill Sites	9,706	-	(174)	9,532
Total	**16,943**	**2,474**	**(4,642)**	**14,775**

Current Provisions	31 March 2013 £000	Additional provisions £000	Amounts used £000	31 March 2014 £000
Adult Social Care legal costs	122	-	-	122
Adult Social Care Redundancies	101	-	-	101
Governance & Community Services Redundancy	92	-	-	92
School Restructure	-	21		21
Carbon Reduction Commitment	343	360	(343)	360

Municipal Mutual Insurance (MMI)	-	2,247	(1,428)	819
NNDR Appeals	-	487	-	487
Closed Landfill Sites	412	78	-	490
Total	**1,070**	**3,193**	**(1,771)**	**2,492**
Total Provisions	**18,013**	**5,667**	**(6,413)**	**17,267**

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 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 2014, 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.

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 2014/15.

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 2013/14 financial year is the third 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 2013/14, the Council will submit the annual report on its emissions for the 2013/14 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2014. The Council is required to surrender allowances to the scheme by the last working day in July 2014 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 2013/14 financial year. The Council does not purchase CRC allowances prospectively, nor allowances being held for trading.

The NNDR appeals provision represents amounts set aside to meet potential future liabilities for Business Rates Appeals. Local Authorities are liable for successful appeals against business rates charged to businesses in 2012-13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised as a best estimate of the amount that businesses have been overcharged up to 31 March 2014.

25. Usable Reserves

The Council holds a number of usable reserves, being those reserves that the Council can use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

County Fund & School Balances - The County Fund and School balances shows the resources available to meet future running costs – see Note 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 2013 £000	31 March 2014 £000
Usable Capital Receipts Reserve	10,548	10,532
Capital Grants & Contributions Unapplied	56,598	53,379
Earmarked Reserves	117,928	115,496
Earmarked Reserves – Revenue Grant & Contribution	11,931	30,916
County Fund balances	8,898	8,898
School Balances	16,230	15,077
Total Usable Reserves	**222,133**	**234,298**

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.

	2012/13 £000	2013/14 £000
Balance at 1 April	**7,925**	**10,548**
Amounts receivable during the year	3,297	1,805
Amounts applied to finance new capital investment	(674)	(1,821)
Net Transfer to the Capital Receipts Reserve	2,623	(16)
Balance at 31 March	**10,548**	**10,532**

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.

	2012/13 £000	2013/14 £000
Balance at 1 April	**53,916**	**56,598**
Amounts receivable during the year	63,440	75,039
Amounts applied to finance new capital investment	(60,758)	(78,258)
Net Transfer to the Capital Unapplied Account	2,682	(3,219)
Balance at 31 March	**56,598**	**53,379**

26. Unusable Reserves

	31 March 2013 £000	31 March 2014 £000
Revaluation Reserve	125,817	128,349
Capital Adjustment Account	356,854	382,942
Financial Instruments Adjustment Account	(23)	(23)
Collection Fund Adjustment Account	3,217	4,446
Accumulated Absences Account	(6,782)	(6,441)
Pensions Reserve	(357,589)	(425,296)
Total Unusable Reserves	**121,494**	**83,977**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant, and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

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	2012/13	2013/14	
	£000	£000	£000
Balance at 1 April	**120,946**	**125,817**	
Upward revaluation of assets	18,138	28,188	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(3,522)	(5,758)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	14,616	22,430	
Difference between fair value depreciation and historical cost depreciation	(5,173)	(5,252)	
Accumulated gains on assets sold or scrapped	(4,572)	(14,646)	
Amount written off to the Capital Adjustment Account	(9,745)		(19,898)
Balance at 31 March	**125,817**		**128,349**

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.

	2012/13	2013/14	
	£000	£000	£000
Balance at 1 April	**411,284**		**356,854**
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	(35,904)	(37,645)	
Revaluation losses on non-current assets	(31,290)	(14,690)	
Revaluation loss reversals on non-current assets	2,065	2,993	
Amortisation of intangible assets	(968)	(1,064)	
Revenue expenditure funded from capital under statute	(39,726)	(14,617)	
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)	(48,608)	
	(194,043)		**(113,631)**
Adjusting amounts written out of the Revaluation Reserve	9,745		19,898
Net written out amount of the cost of non-current assets consumed in the year	**(184,298)**		**(93,733)**

	2012/13 £000	2013/14 £000	£000
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	674	1,821	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	61,471	82,934	
Statutory provision for the financing of capital investment charged against the General Fund balances	15,987	15,356	
Capital expenditure charged against the General Fund balances	51,742	19,643	
	129,874		**119,754**
Movements in the fair value of Investment Properties recognised in the Comprehensive Income and Expenditure Statement	(6)		67
Balance at 31 March	**356,854**		**382,942**

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 2014 will be charged to the General Fund over a specific period.

	2012/13 £000	2013/14 £000
Balance at 1 April	**(23)**	**(23)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-	-
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.

	2012/13 £000	2013/14 £000
Balance at 1 April	**(300,200)**	**(357,589)**
Remeasurement of the net defined liability	(58,751)	(52,693)
Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement	(30,463)	(47,358)
Employer's pension contributions charged to General Fund Balance	31,825	32,344
Balance at 31 March	**(357,589)**	**(425,296)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Council Tax and Business Rates 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.

	2012/13 £000	2013/14 £000
Balance at 1 April	**2,000**	**3,217**
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	1,627
Amount by which business rates income debited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	-	(398)
Balance at 31 March	**3,217**	**4,446**

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.

	2012/13 £000	2013/14 £000
Balance at 1 April	**(7,196)**	**(6,782)**
Settlement or cancellation of accrual made at the end of the preceding year	7,196	6,782
Amounts accrued at the end of the current year	(6,782)	(6,441)
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	341
Balance at 31 March	**(6,782)**	**(6,441)**

27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2012/13 £000	2013/14 £000
Net (Surplus) / Deficit on the Provision of Services	**74,570**	**(4,911)**
<u>Adjust for non-cash movements</u>		
Depreciation	(35,904)	(37,645)
Impairment and downward revaluations	(31,291)	(14,690)
Reversal of previous years revaluation losses	2,066	2,992
Amortisation of Intangible Assets	(968)	(1,064)
Net PFI Debtor Adjustments	(361)	-
(Increase) / Decrease in Interest Creditors	(91)	4,283
Increase in Creditors	(6,220)	(203)
Increase / (Decrease) in Interest Debtors	(63)	105
Increase / (Decrease) in Debtors	3,177	(1,015)

	2012/13 £000	2013/14 £000
Increase / (Decrease) in Inventories	(15)	10
Movement in Pension Liability	1,362	(15,014)
Contributions (to) / from Provisions	(1,476)	746
Carrying amount of non-current assets sold or derecognised	(88,220)	(48,608)
Upward / (Downward) revaluation in Investment Property Values	(6)	67
Adjust for items that are investing or financing activities		
Capital grants and contributions credited to provision of services	64,153	79,716
Net adjustments from the sale of short term investments	(350)	-
Proceeds from the sale of PPE, Investment Property and Intangible assets	3,297	1,805
Net Cash inflow from Operating Activities	**(16,340)**	**(33,426)**

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

	2012/13 £000	2013/14 £000
Interest receivable	(2,856)	(1,395)
Opening debtor	(133)	(70)
Closing debtor	70	175
Cash flow interest received	**(2,919)**	**(1,290)**

	2012/13 Restated £000	2013/14 £000
Interest payable	22,010	21,647
Opening creditor	(5,465)	(5,556)
Closing creditor	5,556	1,273
Cash flow interest paid	**22,101**	**17,364**

28. Cash Flow Statement – Investing Activities

	2012/13 £000	2013/14 £000
Purchase of Property, Plant & Equipment (PPE)	74,470	88,066
Purchase of Intangible Assets & Assets Held for Sale	666	1,715
PFI Assets (non cash flow item)	(613)	-
Opening Capital Creditors	2,225	7,787
Closing Capital Creditors	(7,787)	(6,137)
Purchase of short-term investments	-	15,350
Long Term loans granted	-	1,120
Proceeds from the sale of PPE and Intangible Assets	(3,297)	(1,805)
Other capital cash receipts	(69)	(156)
Capital Grants Received	(53,703)	(82,433)
Net cash outflow from investing activities	**11,892**	**23,507**

29. Cash Flow Statement – Financing Activities

	2012/13 £000	2013/14 £000
Cash receipts of short and long term borrowing	(2)	-
Appropriation to the Collection Fund Adjustment Account	1,217	1,716
Repayments of short and long term borrowing	-	1,318
Payments for the reduction of finance lease liabilities	125	-
Payments for the reduction of long term PFI Liabilities	2,928	3,116
Net cash outflow / (inflow) from financing activities	**4,268**	**6,150**

30. 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:

2013/14 Department Income and Expenditure	Adult Social Care	Public Health	Governance & Community Services	Children's Services	Business Services	Communities, Economy, & Transport	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(65,716)	(351)	(5,795)	(348,308)	(48,555)	(62,249)	**(530,974)**
Government grants	(7,713)	(17,402)	(305)	(284,518)	-	(4,657)	**(314,595)**
Total Income	**(73,429)**	**(17,753)**	**(6,100)**	**(632,826)**	**(48,555)**	**(66,906)**	**(845,569)**
Employee expenses	50,841	1,543	4,670	244,493	20,464	20,233	**342,244**
Other service expenses	199,309	15,950	3,930	193,533	26,217	122,644	**561,583**
Support service recharges	13,423	414	334	312,473	2,811	10,757	**340,212**
Total Expenditure	**263,573**	**17,907**	**8,934**	**750,499**	**49,492**	**153,634**	**1,244,039**

Net Expenditure	**190,144**	**154**	**2,834**	**117,673**	**937**	**86,728**	**398,470**

2012/13 Department Income and Expenditure	**Adult Social Care**	**Governance & Community Services**	**Children's Services**	**Business Services**	**Communities, Economy, & Transport**	**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**

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.

	2012/13	**2013/14**
	£000	**£000**
Net expenditure in the Department Analysis	**356,201**	**398,470**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	70,673	47,262
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(31,968)	(58,715)
Cost of Services in Comprehensive Income and Expenditure Statement	**394,906**	**387,017**

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.

2013/14	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	(530,973)	-	-	403,116	**(127,857)**	-	**(127,857)**
Net surplus on trading undertakings	-	-	-	-	-	(469)	**(469)**
Interest and investment income	-	-	-	-	-	(1,395)	**(1,395)**

2013/14	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
Income from council tax	-	-	-	-	-	(216,734)	**(216,734)**
Non-Domestic Rates	-	-	-	-	-	(54,697)	**(54,697)**
Business Rate Retention	-	-	-	-	-	(11,033)	**(11,033)**
Revenue Support Grants	-	-	-	-	-	(98,569)	**(98,569)**
Education Services Grant (ESG)	-	-	-	-	-	(7,045)	**(7,045)**
Council Tax Transition Grant, etc.	-	-	-	-	-	(2,392)	**(2,392)**
Local Services Support Grant (LSSG)	-	-	-	-	-	(1,095)	**(1,095)**
Council Tax Freeze Grant	-	-	-	-	-	(2,435)	**(2,435)**
New Home Bonus						(1,295)	**(1,295)**
Government grants and contributions	(314,596)	-	-	-	**(314,596)**	(79,716)	**(394,312)**
Total Income	**(845,569)**	**-**	**-**	**403,116**	**(442,453)**	**(476,875)**	**(919,328)**
Employee expenses	342,244	40,957	(56,674)	-	**326,527**	-	**326,527**
Other service expenses	496,559	(18,724)	(42,036)	(62,904)	**372,896**	-	**372,896**
Support Service recharges	340,212	-	-	(340,212)	**-**	-	**-**
Depreciation, amortisation and impairment	65,024	50,407	-	-	**115,431**	(68)	**115,363**
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	-	14,617	-	-	**14,617**	-	**14,617**
Pensions interest cost and net return on assets	-	-	-	-	-	16,058	**16,058**
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	7,052	**7,052**
Interest Payments	-	-	-	-	-	14,595	**14,595**
Precepts & Levies	-	-	-	-	-	507	**507**
Net premiums for early repayment of loans	-	-	-	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	46,803	**46,803**
Total expenditure	**1,244,039**	**87,257**	**(98,710)**	**(403,116)**	**829,470**	**84,947**	**914,417**
Surplus on the provision of services	**398,470**	**87,257**	**(98,710)**	**-**	**387,017**	**(391,928)**	**(4,911)**

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)	427,056	**(119,027)**	-	**(119,027)**
Net surplus on trading undertakings	-	-	-	-	**-**	(303)	**(303)**
Interest and investment income-	-	-	-	-	**-**	(2,856)	**(2,856)**

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**
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)**	**427,056**	**(460,345)**	**(433,416)**	**(893,761)**
Employee expenses	358,538	(2,548)			**355,990**	-	**355,990**
Other service expenses	476,264	4,269	(30,055)	(57,040)	**393,438**	-	**393,438**
Support Service recharges	370,016			(370,016)	**-**	-	**-**
Depreciation, amortisation and impairment	36,871	29,226	-	-	**66,097**	6	**66,103**
Pensions interest cost and net return on assets	-	39,726	-	-	**39,726**	-	**39,726**
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	5,559	**5,559**
Interest Payments-Other	-	-	-	-	-	7,271	**7,271**
Precepts & Levies	-	-	-	-	-	14,739	**14,739**
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	582	**582**
Total expenditure	-	-	-	-	-	84,923	**84,923**
	1,241,689	**70,673**	**(30,055)**	**(427,056)**	**855,251**	**113,080**	**968,331**
Deficit on the provision of services							
	356,201	**70,673**	**(31,968)**	**-**	**394,906**	**(320,336)**	**74,570**

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. It also has the public health remit.
- Governance Services – provides overall governance aspects of the council including legal and constitutional arrangements.
- Children's Services – provide social care for people under 16, state education and other childcare services.
- Business Services – responsible for managing our finances, IT, human resources, procurement and property.
- Communities, Economy and Transport – responsible for community services such as libraries and registrars, customer access/services roads, transport planning, economy and the East Sussex environment.

31. Trading Operations

The Council has trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. 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:

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

	2012/13			2013/14		
	Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
County Catering Service	328	(344)	(16)	340	(319)	21
County Transport Group	1,840	(2,190)	(350)	1,545	(2,094)	(549)
Chiltern	30	(8)	22	33	(6)	27
Hospitality Hub	29	(6)	23	27	(6)	21
Sidley Café	23	(5)	18	30	(14)	16
1970 Act	2,093	(2,093)	-	1,740	(1,744)	(4)
Total	**4,343**	**(4,646)**	**(303)**	**3,715**	**(4,183)**	**(468)**

Note

The 1970 Act includes Legal Services, County Records, School Library Service, Music Tuition, Street Lighting, Lewes Car Parking Scheme, Occupational Health, Financial Services and Property Services.

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

In 2013/14 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006 with the following partners: Eastbourne, Hailsham & Seaford CCG; Hastings & Rother CCG; High Weald, Lewes & Havens CCG.

- The Mental Health Crisis Response & Home Treatment and Community Forensic schemes which started in April 2010 comprise the Council and the Sussex Partnership NHS Foundation Trust as the host agency. These schemes ended as formal Section 75 agreements on 31st March 2013.

- 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.

- **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 scheme ended on 31st March 2013.

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

	2012/13			2013/14		
	Expenditure	Income	ESCC Contribution	Expenditure	Income	ESCC Contribution
	£'000	£'000	£'000	£'000	£'000	£'000
Arrangement						
Mental Health – Crisis Response & Home Treatment	2,463	(2,463)	(92)	-	-	-
Mental Health – Community Forensic	477	(477)	(132)	-	-	-
Integrated Community Equipment	3,692	(3,692)	(1,846)	3,767	(3,767)	(1,884)
Children's Community Services	24,936	(24,936)	(10,461)	-	-	-
Total	**31,568**	**(31,568)**	**(12,531)**	**3,767**	**(3,767)**	**(1,884)**

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.

33. Members' Allowances

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

	2012/13 £000	2013/14 £000
Salaries (Basic allowances)	531	531
Members - NI & Pension	118	108
Special responsibility allowances	213	198
Expenses	47	34
Total	**909**	**871**

The table below shows the actual amounts paid to individual members in the 2013/14 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 2013/14

Member	Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
	£	£	£	£
Cllr Alan Shuttleworth	9,764	-	340	-
Cllr Barry Taylor	10,842	-	-	-
Cllr Bob Standley	9,764	-	770	-
Cllr David Elkin	10,842	16,695	2,414	405
Cllr Frank Carstairs	9,764	-	-	-
Cllr Ian Buchanan	9,764	-	-	-
Cllr Jeremy Birch	10,842	-	-	-
Cllr Jim Sheppard	9,764	-	127	-
Cllr John Hodges	9,764	-	804	-
Cllr John Livings	1,078	-	59	-
Cllr John Ungar	9,764	-	551	-
Cllr Jon Freeman	1,078	-	77	-
Cllr Jon Harris	1,078	-	-	-
Cllr Kim Forward	9,764	-	912	3
Cllr Michael Ensor	10,842	6,021	-	-
Cllr Michael Wincott	9,764	-	-	-
Cllr Mike Blanch	9,764	5,196	598	-
Cllr Mike Pursglove	9,764	-	666	76
Cllr Paul Sparks	1,078	599	146	-
Cllr Peter Charlton	9,764	-	455	15
Cllr Philip Howson	10,842	4,160	548	7
Cllr Richard Stogdon	10,842	6,021	1,403	113
Cllr Rosalyn St Pierre	10,842	-	606	102
Cllr Roy Galley	9,764	-	248	-
Cllr Ruth O'Keeffe	10,842	-	-	-
Cllr Steve Wallis	9,764	-	366	-
Cllr Sylvia Tidy	10,842	12,471	1,201	15
Cllr Thomas Ost	1,078	-	105	-
Cllr Trevor Webb	10,842	4,821	-	-
Cllr. Angharad Davies	9,764	-	1,276	11
Cllr. Bill Bentley	10,842	14,452	2,049	54
Cllr. Carl Maynard	10,842	14,452	2,333	-
Cllr. Carla Butler	9,764	-	-	-
Cllr. Carolyn Heaps	1,078	-	-	-
Cllr. Carolyn Lambert	10,842	-	-	-
Cllr. Charles Clark	9,764	-	-	-
Cllr. Christopher Dowling	10,842	14,122	869	3
Cllr. Claire Dowling	9,185	-	252	2
Cllr. Colin Belsey	10,842	12,372	3,205	100
Cllr. Daniel Shing	10,842	-	-	-
Cllr. David Tutt	10,842	12,042	480	139
Cllr. Francis Whetstone	10,842	-	-	-
Cllr. Godfrey Daniel	10,842	6,021	709	17

Member	Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr. John Barnes	10,842	-	-	-
Cllr. Joyce Hughes	1,078	-	-	-
Cllr. Kathryn Field	10,842	5,625	1,494	61
Cllr. Keith Glazier	10,842	23,096	4,389	552
Cllr. Laurence Keeley	9,764	-	558	-
Cllr. Martin Kenward	1,078	-	173	-
Cllr. Matthew Lock	1,078	1,437	216	-
Cllr. Michael Phillips	9,764	-	-	-
Cllr. Michael Thompson	1,078	-	-	-
Cllr. Nicholas Bennett	10,842	14,452	3,101	44
Cllr. Patrick Rodohan	10,842	-	512	-
Cllr. Peter Pragnell	10,842	6,021	-	-
Cllr. Philip Scott	10,842	-	784	36
Cllr. Rupert Simmons	10,842	13,296	1,659	109
Cllr. Stephen Shing	10,842	-	530	3
Cllr. Stuart Earl	9,764	-	421	18
Cllr. Terrence Fawthrop	1,078	-	421	-
Cllr. Tony Freebody	1,078	1,437	358	-
Mr Anthony Reid	1,078	-	-	-
Mr Brian Gadd	1,078	-	-	-
Mr David Rogers	1,078	-	36	20
Mr John Thomas	1,078	-	446	343
Mr Peter Jones	1,078	2,396	-	-
Mr Robert Tidy	1,078	-	169	8
Mrs Beryl Healy	1,078	-	-	-
Mrs Joy Waite	1,078	-	27	-
Mrs Margaret Stroude	1,078	480	33	-

Note – Actual figures have been rounded to the nearest pound in this table.

34. 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 2013/14

	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		182,909	-	-	-	36,765	219,674
Chief Operating Officer	1	121,106				24,342	145,448
Director of Adult Social Care and Health	2	133,521	9,655	1,344	-	28,761	173,281
Director of Communities, Economy and Transport		128,003	-	1,054	-	26,315	155,372
Director of Public Health	3	40,343	-	-	-	5,010	45,353
Acting Director of Public Health	4	77,983	-	-	-	10,918	88,901
Assistant Chief Executive	5	35,019	-	-	-	7,039	42,058
Assistant Chief Executive	6	63,996	-	-	10,457	12,145	86,598
Interim Director of Children's Services	7	189,404	-		-	-	189,404
Director of Children's Services	8	27,940	-	29	-	4,722	32,691
Chief Finance Officer	9	57,256	-		-	11,508	68,764

Notes:
1. Commenced employment 15 April 2013
2. Bonuses - relates to 7.5% Honorarium for period September 2012 to 31 August 2013 (paid in August 2013)
3. Terminated employment 30 June 2013

4. Commenced as acting Director 01 July 2013 - only earnings in senior position stated
5. Appointed to senior position from 1 November 2013 - only earnings in senior position stated
6. Terminated employment 31 October 2013
7. Appointed interim Director from October 2013 - not an employee, engagement via agency.
8. Terminated employment 2 June 2013
9. Commenced employment 12 September 2013

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
Deputy Director of Finance	2	49,904	-	-	54,903	9,881	114,688

Notes:
1. The Interim Director of Corporate Resources was appointed to this post for a fixed period which ceased in December 2012. The amount stated is due to the agency for their services in the financial year.
2. The Deputy Director of Finance was the section 151 Officer and Chief Finance Officer for a period of six months.

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	2012/13 Number of employees Non - Schools	2012/13 Schools	2012/13 **Total**	2013/14 Number of employees Non - Schools	2013/14 Schools	2013/14 **Total**
£50,000 to £54,999	40	86	**126**	31	73	**104**
£55,000 to £59,999	12	56	**68**	24	48	**72**
£60,000 to £64,999	29	33	**62**	30	31	**61**
£65,000 to £69,999	11	18	**29**	7	14	**21**
£70,000 to £74,999	2	8	**10**	10	9	**19**
£75,000 to £79,999	7	2	**9**	3	5	**8**
£80,000 to £84,999	1	3	**4**	2	1	**3**
£85,000 to £89,999	1	4	**5**	2	3	**5**
£90,000 to £94,999	1	3	**4**	1	3	**4**
£95,000 to £99,999	1	4	**5**	1	1	**2**
£100,000 to £104,999	1	0	**1**	1	1	**2**
£105,000 to £109,999	0	1	**1**	0	0	**-**
£110,000 to £114,999	0	0	**-**	1	0	**1**
£115,000 to £119,999	0	0	**-**	0	0	**-**
£120,000 to £124,999	1	0	**1**	2	0	**2**
£125,000 to £129,999	2	1	**3**	1	1	**2**
£130,000 to £134,999	0	0	**-**	0	1	**1**
£135,000 to £139,999	2	0	**2**	0	0	**-**
£140,000 to £144,999	0	0	**-**	1	0	**1**

Remuneration band	2012/13 Number of employees Non - Schools	Schools	Total	2013/14 Number of employees Non - Schools	Schools	Total
£145,000 to £149,999	0	0	-	0	0	-
£150,000 to £154,999	1	0	**1**	0	0	-
£155,000 to £159,999	0	0	-	0	0	-
£160,000 to £164,999	0	0	-	0	0	-
£165,000 to £169,999	0	0	-	0	0	-
£170,000 to £174,999	0	0	-	0	0	-
£175,000 to £179,999	0	0	-	0	0	-
£180,000 to £184,999	1	0	**1**	1	0	**1**

35. 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 219 employees during 2013/14, incurring costs of £2.9m (191 terminations at a cost of £2.6m in 2012/13). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2013/14 and 2012/13 are shown in the tables below.

Exit Packages 2013/14

Exit package cost Band	Compulsory redundancies Number of employees	Compulsory redundancies £000	Other departures agreed Number of employees	Other departures agreed £000	Total number of exit packages Number of employees	Total number of exit packages £000
less than £20,000	71	545	95	617	166	1,162
£20,000 to £39,999	25	658	16	466	41	1,124
£40,000 to £59,999	7	328	4	197	11	525
£60,000 to £79,999	1	77			1	77
£80,000 to £99,999						
£100,000 to £149,999						
£150,000 to £199,999						
£200,000 to £249,999						
Total	**104**	**1,608**	**115**	**1,280**	**219**	**2,888**

The total cost of £2.888m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2013/14. There were no provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2013/14.

Exit Packages 2012/13

Exit package cost Band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	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
£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**

36. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Accounting Statements, certification of grant claims, statutory inspections and for non-audit services provided by the Council's external auditors, KPMG, for services rendered during the year.

	2012/13	2013/14		
	£000 Total	£000 KPMG	£000 AC	£000 Total
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	106	111	2	113
Fees payable for the certification of grant claims and returns for the year	6	4	-	4
Total	**112**	**115**	**2**	**117**

37. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

		2012/13		2013/14
	£000	£000	£000	£000
Credited to Taxation and Non Specific Grant Income				
Council Tax		243,127		217,132
Business Rates		112,266		65,332
Revenue Support Grant:				
General	2,176		98,569	
New Homes Bonus	831		1,296	
Local Services Support	1,684		1,095	
Education Support	-		7,045	
Council Tax Transition & Other	-		2,392	
Council Tax Freeze	6,021		2,436	
		10,712		112,833
Recognised capital grants and contributions		64,152		79,716
Total		**430,257**		**475,013**
Grants Credited to Services				
Dedicated Schools		277,358		262,142
Young Peoples Learning Agency & Sixth Forms		7,917		4,689
Private Finance Initiative		4,755		4,755
Pupil Premium		7,874		10,864
Early Intervention		19,332		-
Learning Disabilities Health & Reform		17,856		-
Public Health		-		23,460
Other		5,257		9,932
Total		**340,349**		**315,842**

Note – the Dedicated Schools Grant figure is the total of DSG after Academy Recoupment and Carry Forward as per Note 38.

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:

	31 March 2013 £000	31 March 2014 £000
Current Liabilities – Receipts in Advance		
Revenue Grants & Contributions	165	1,748

	31 March 2013 £000	31 March 2014 £000
Long Term Liabilities – Receipts in Advance		
Capital Grants & Contributions	4,038	4,425

38. 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 (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2013/14 before Academy recoupment			329,166
Academy figure recouped for 2013/14			(67,024)
Total DSG after Academy recoupment for 2013/14			**262,142**
Plus: Brought Forward from 2012/13			1,976
Less: Carry forward to 2014/15 agreed in advance			-
Agreed initial budgeted distribution in 2013/14	**60,360**	**203,758**	**264,118**
In year adjustments		(9,161)	(9,161)
Final budgeted distribution for 2013/14	**60,360**	**194,597**	**254,957**
Less: Actual central expenditure	(52,705)		(52,705)
Less: Actual ISB deployed to schools		(194,597)	(194,597)
Plus: Local authority contribution for 2013/14	290	-	290
Carry forward to 2014/15	**7,945**	**-**	**7,945**

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2013/14 was £203.7m. Schools carried forward (reserve) a net total of £15.3m (7.5%) at the end of the financial year at 31 March 2014, which was a decrease of £0.9m compared to 31 March 2013. 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.**	**142**	**13**	**10**	**165**
Total surplus	£000	9,278	4,632	1,402	15,312
All schools with deficits					
Number of schools	**No.**	**3**	**-**	**-**	**3**

		Primary	Secondary	Special	Total
Total deficit	£000	(45)	-	-	(45)
Carry forward	**£000**	**9,233**	**4,632**	**1,402**	**15,267**
Less Capital Loan to Schools	£000	(133)	(58)	-	(191)
Net carry forward	**£000**	**9,100**	**4,574**	**1,402**	**15,076**

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.

39. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 30 on reporting for resources allocation decisions, and further details are shown in Note 37. Grant receipts in advance at 31 March 2014 are shown in Note 37.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. None of the Chief Officers and 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 2013/14 is shown in Note 33.

Other Public Bodies

During 2013/14, the Pension Fund had an average balance of £1.4m deposited with the Council, and paid £0.005m interest for these deposits. The Council charged the Fund £1.0m 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 32.

Entities controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 48), for the balances held by the Council at 31 March 2014.

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) at an annual rent of £15,180 (£15,180 2012/13). There were no long term debts to the company at 31 March 2014.

40. 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.

	2012/13 £000	2013/14 £000
Opening Capital Financing Requirement	**402,386**	**387,303**
Property, Plant and Equipment	74,470	88,066
Intangible assets	680	1,715
Assets Held for Sale	(16)	-
Revenue Expenditure Funded from Capital under Statute	39,726	14,617
Total capital investment	**114,860**	**104,398**
Capital receipts	(674)	(1,821)
Government grants and contributions	(61,471)	(82,935)
Revenue financing	(51,742)	(19,643)
Total financing other than from loans	**(113,887)**	**(104,399)**
Long Term capital debtors	(69)	963
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(15,987)	(15,355)
Closing Capital Financing Requirement	**387,303**	**372,910**

Explanation of movements in year	2012/13 £000	2013/14 £000
Decrease in underlying need to borrow, that is not supported by government financial assistance	(15,083)	(14,393)

41. Leases

Authority as Lessee

Finance Leases - As at 31 March 2014, the Council has no assets classed as finance leases (one in the prior year). The asset is the ICT storage network and under this lease is carried as Property, Plant, and Equipment in the Balance Sheet at the following net amount:

	31 March 2013 £000	31 March 2014 £000
Vehicles, Plant, Furniture and Equipment	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 2013 £000	31 March 2014 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	126	-
Non-current	-	-
Finance costs payable in future years	-	-
Minimum lease payments	**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 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Not later than one year	126	-	126	-
Later than one year and not later than five years	-	-	-	-
Total	**126**	**-**	**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 2013	31 March 2014
	£000	£000
Not later than one year	3,851	3,504
Later than one year and not later than five years	12,123	11,193
Later than five years	26,378	23,524
Total	**42,352**	**38,221**

The expenditure charged to Net cost of services during the year in relation to these leases was:

	2012/13	2013/14
	£000	£000
Vehicles	520	384
Schools Equipment	966	929
Land and Buildings	3,382	2,710
Total	**4,868**	**4,023**

Other payments for the renting and hiring of facilities in 2013/14 was £0.121m (£0.094m 2012/13).

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 2013	31 March 2014
	£000	£000
Not later than one year	1,600	1,598
Later than one year and not later than five years	1,102	447
Later than five years	80	32
Total	**2,782**	**2,077**

The total income received from leasing, renting and hiring of facilities in 2013/14 was £2.429m (£2.617m 2012/13).

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2013 £000	31 March 2014 £000
Long Term PFI Liabilities	93,739	90,622
Financial Guarantee	54	55
Long Term Creditors	1	1
Total	**93,794**	**90,678**

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

Peacehaven PFI	Schools	Telscombe Cliffs £000	Meridian £000	Peacehaven Secondary £000	Peacehaven Heights £000	Total £000
Value of Assets						
1 April 2013		**4,871**	**241**	**12,172**	**3,501**	**20,785**
Transfers		-	-	-	-	-
Additions		5	-	24	43	72
Revaluations		806	-	886	(66)	1,626
Depreciation		(176)	(8)	(406)	(168)	(758)
31 March 2014		**5,506**	**233**	**12,676**	**3,310**	**21,725**

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 2013	**7,616**	**2,019**	**2,355**	**6,508**	**71,347**	**1,460**	**91,305**
Additions	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
Depreciation	(300)	(78)	(84)	(217)	(2,811)	(42)	(3,532)
31 March 2014	**7,316**	**1,941**	**2,271**	**6,291**	**68,536**	**1,418**	**87,773**

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: 2014/15	2,511	4,395	16,657	**23,563**
Within 2 to 5 years: 2015/16 to 2018/19	11,613	16,205	71,229	**99,047**
Within 6 to 10 years: 2019/20 to 2023/24	14,440	16,843	105,325	**136,608**
Within 11 to 15 years: 2024/25 to 2028/29	25,095	11,454	115,963	**152,512**
Within 16 to 20 years: 2029/30 to 2032/33	26,224	3,708	105,122	**135,054**
Total	**79,883**	**52,605**	**414,296**	**546,784**

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: 2014/15	605	1,412	1,478	386	**3,881**
Within 2 to 5 years: 2015/16 to 2018/19	3,104	4,966	6,368	1,874	**16,312**
Within 6 to 10 years: 2019/20 to 2023/24	6,027	4,061	9,095	3,166	**22,349**
Within 11 to 15 years: 2024/25 to 2028/29	4,120	755	4,910	1,901	**11,686**
Total	**13,856**	**11,194**	**21,851**	**7,327**	**54,228**

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 2014 is £93.74m (£79.88m for Waste PFI, and £13.86m for Peacehaven Schools PFI), and as at 31 March 2013 was £96.67m (£82.26m for Waste PFI, and £14.41m 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.

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 2013	**82,261**	**14,405**	**96,666**	**2,927**	**93,739**
New operational assets	-	-	-	-	-
Use of prepayment reserve	-	-	-	-	-
Lease principal repayment	(2,378)	(549)	(2,927)	190	(3,117)
Balance outstanding at 31 March 2014	**79,883**	**13,856**	**93,739**	**3,117**	**90,622**

43. 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 2013/14, the Council incurred a total of £14.30m 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 £3.0m. These figures compare to an amount of £15.71m payable in 2012/13 (14.1% of pensionable pay), and £2.9m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, the Agency uses a notional fund as the basis for calculating the employer's contribution rate. However, it is not possible to identify the Council's share of the underlying liabilities of the scheme for its own employees. For the purposes of these accounts, it is therefore accounted for as a defined contribution scheme.

The 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 2014, the Council owed £1.89m to the Teachers' Pension Agency for employer's and employees' contributions to the Teachers' Pension Scheme (£1.92m 31 March 2013).

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 44.

NHS Staff Pension Scheme - During 2013/14, NHS Staff have transferred to the Council. This staffs has maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013/14, the Council paid £0.125m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14% of pensionable pay. There was £0.039m contributions remaining payable at the year end.

44. 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 contain actual contributions made to the scheme. The Local Government Scheme is administered through the East Sussex Pension Fund, and in addition, the Council has liabilities for discretionary payments for added years, and other benefits, both for local government employees and for teachers. These are charged as an expense to the accounts of the Council, rather than those of the Pension Fund.

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:

	2012/13 £000	2013/14 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost Comprising:		
• current service cost	23,980	30,879
• past service costs	924	421
• (gain) / loss from settlements	-	-
Financing and Investment Income and Expenditure		
Net interest expense	14,256	16,058
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**39,160**	**47,358**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability comprising:		
• Return on plan assets (excluding the amount included in the net interest expense)	(77,788)	28,494
• Actuarial gains and losses arising on changes in demographic assumptions	-	22,218
• Actuarial gains and losses arising on changes in financial assumptions	126,583	30,753
• Other (if applicable)	1,259	(28,772)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**89,214**	**100,051**
Movement in Reserves Statement		
• Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(57,389)	(67,707)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to the scheme	**31,825**	**32,344**

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,224,665)	(995,381)	(1,091,825)	(1,263,248)	(1,338,145)
Fair value of plan assets in the Local Government Pension Scheme	708,728	767,516	791,625	905,659	912,849
Deficit in the scheme: Local Government Pension Scheme	**(515,937)**	**(227,865)**	**(300,200)**	**(357,589)**	**(425,296)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,338.1m (£1,263.2m in 2012/13) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £425.3m (£357.6m in 2012/13).

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 £31.3m (£24.9m in 2012/13).

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 as at 31 March 2014 is employee members £467.5m (£535.7m at 31 March 2013), deferred pensioners £231.1m (£202.9m) and pensioners £554.0m (£440.7m). There is also a liability of approximately £39.5m (£38.8m) in respect of LGPS unfunded pensions and £45.9m (£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

Assets and Liabilities in Relation to Post-employment Benefits

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

	2012/13 (Restated) £000	2013/14 £000
Opening balance at 1 April:	**1,091,825**	**1,263,248**
Current Service Cost	23,980	30,879
Interest Cost	52,210	56,674
Contributions by scheme participants	8,576	8,599
Re-measurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	-	22,218
• Actuarial gains/losses arising from changes in financial assumptions	126,583	30,753
• Other	1,259	(28,772)
Past Service Cost	924	421
Losses/(gains) on curtailment	-	-
Liabilities assumed on entity combinations	-	-
Benefits paid	(36,743)	(40,619)
Liabilities extinguished on settlements	-	-
Unfunded Benefits paid	(5,366)	(5,256)
Closing balance at 31 March:	**1,263,248**	**1,338,145**

Reconciliation of fair value of the scheme assets:

	2012/13 (Restated) £000	2013/14 £000
Opening fair value of scheme asset at 1 April:	**791,625**	**905,659**
Interest Income	37,954	40,616
Re-measurement gain/(loss):		
• The return on plan assets, excluding the amount included in the net interest expense	77,788	(28,494)
• Other	5,366	5,256
The effect of changes in foreign exchange rates	-	-
Contributions from employer	26,459	27,088
Contributions from employees into the scheme	8,576	8,599
Benefits paid	(36,743)	(40,619)
Unfunded benefits paid	(5,366)	(5,256)
Closing fair value of scheme assets at 31 March:	**905,659**	**912,849**

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 £12.1m (2012/13: £115.7m).

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2012/13 £000	%	Fair value of scheme assets 2013/14 £000	%
Cash and cash equivalents	**22,507**	**2**	**27,653**	**3**
Equity instruments:				
By industry type				
• Consumer	30,106	3	44,469	5
• Manufacturing	12,220	1	22,607	2
• Energy and utilities	19,787	2	23,791	3
• Financial institutions	45,638	5	50,084	5
• Health and care	21,290	2	27,005	3
• Information technology	20,093	2	24,625	3
•	16,415	2	14,486	2
Sub-total equity	**165,549**	**17**	**207,067**	**23**
Bonds:				
By sector				
• Government	13,606	2	12,837	1
• Other	11,363	1	12,115	1
Sub-total bonds	**24,969**	**3**	**24,952**	**2**
Private equity:				
All	77,436	9	71,809	8
Overseas				
Sub-total private equity	**77,436**	**9**	**71,809**	**8**
Other investment funds:				
• UK Property	74,229	8	82,250	9
• Overseas Property	-	-	-	-
Sub-total other investment funds	**74,229**	**8**	**82,250**	**9**
Investment funds and unit trusts:				
• Equities	475,591	53	434,856	49
• Bonds	60,663	7	59,253	6

	Fair value of scheme assets	%	Fair value of scheme assets	%
• Hedge Funds	502	0	1,796	0
• Commodities	4,641	1	2,689	0
Sub-total Investment funds and unit trusts	**541,397**	**61**	**498,594**	**55**
Derivatives:				
• **Foreign exchange**	**(427)**	**0**	**524**	**0**
Total assets	**905,659**	**100**	**912,849**	**100**

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 2013 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:

	2012/13	2013/14
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	22.2 Years	
Women	24.4 Years	
Longevity at 65 for future pensioners		
Men	24.2 Years	
Women	26.7 Years	
Rate of inflation	2.80%	2.80%
Rate of increase in salaries	5.10%	4.60%
Rate of increase in pensions	2.80%	2.80%
Rate for discounting scheme liabilities	4.50%	4.30%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e., on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.;

Change in assumptions at 31 March 2014:	Impact on the Defined Benefit Obligation in the Scheme	
	Approximate increase to Employer	Approximate monetary amount
	%	**£000**
0.5% decrease in Real Discount Rate	9%	125,301
1 year increase in member life expectancy	3%	40,144
0.5% increase in the Salary Increase Rate	2%	32,790
0.5% increase in the Pension Increase Rate	7%	91,057

At 31 March 2014, the Council owed £2.95m (£2.92m 31 March 2013) 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 2013, can be found on pages 90 to 116.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 84.0% over the next 3 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £425.3m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. 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 the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary; and
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The Council anticipates paying £26.249m contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years.

45. Contingent Liabilities

The High Court asked ESCC to pay £39,000 towards NPP's costs of the West Beach case. These costs were never paid as the case went to appeal. ESCC won in the Court of Appeal but the case has now gone to the Supreme Court. If ESCC lose at the Supreme Court costs could be awarded to the appellant (NPP) and the best estimate of this is £150,000.

The Langford ET case (Children's Services) is coming up which if lost could cost £50,000.

NNDR Appeals - The Council has made a provision for NNDR Appeals based upon its best estimates (provided to the Council by the billing authorities) of the actual liability as at the year-end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

46. Contingent Assets

A claim of compound interest from HMRC, which has been lodged at the High Court for a sum in excess of £300,000, 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.

A claim regarding VAT paid on off-street car parking charges, has been lodged with the First Tier Tribunal (Tax) for £82,092 for a refund of tax. The claim is on hold pending a judgement on the Isle of Wight Council and other such cases. The Littlewoods case has been referred back to the High Court by the European Court of Justice, which means a wait of up to two years for the outcome.

47. 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 12 February 2013 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £400 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £380 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 15% 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 2013/14. 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 2014 are detailed below:

The minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent) with the exception of the UK which has a AA+ sovereign rating.

The limits for Specified Investments are £60m upto 1 year with the exception of the Government's Debt Management and Deposit Facility and Government Treasury Bills which have an unlimited maximum investment. Non Specified Investments such as UK Local Authorities have a maximum of £60m upto two years.

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 £286.0m and cash deposits of £18.5m 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 2014 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 2014, the Council's investments and cash deposits included £304.5m 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 £10.0m in 2013/14 (£9.3m 2012/13) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2013	31 March 2014
	£000	£000
Less than three months	7,173	7,491
Three to five months	621	456
Five months to one year	452	335
More than one year	1,086	1,722
Total	**9,332**	**10,004**

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 2013	31 March 2014
	£000	£000
Less than one year (current assets)	322,154	337,309
Between one and two years	653	1,615
	322,807	**338,924**

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 2013	31 March 2014
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	100,917	92,497
Between one and two years	0%	40%	7,276	16,234
Between two and five years	0%	60%	24,576	30,716
Between five and ten years	0%	80%	40,895	51,255
More than ten years	0%	80%	280,874	251,462
			454,538	**442,164**

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 2013/14 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	1,895
Impact on Comprehensive Income and Expenditure	1,895

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £1.9 million (£2.9 million in 2012/13) represents the immediate impact on the Council investments that are on variable rate, but ignores the impact of 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.

The Council has a 19% interest in Woodland Enterprises, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The total assets less current liabilities of the Company were £835,712 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.

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.

48. 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 Trust: 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. KPMG separately provides an independent examination of this Trust Fund.

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

	2013/14			
	Opening Balance £000 *(Revised)*	**Income in Year £000**	**Expenditure £000**	**Closing Balance £000**
Sole trustee funds				
Music Trust	668	2	(16)	654
Robertsbridge Youth Centre	104	-	-	104
Lewes Educational Charity	44	2	(3)	43
How Scholarship	5	-	-	5
Wright Legacy	2	-	-	2
Total sole trustee funds	**823**	**4**	**(19)**	**808**
Ashdown Forest Trust	1,374	71	(70)	1,375
General trust funds	64	-	-	64
Bequests	119	31	(70)	80
Comforts funds	44	52	(21)	75
Safe Custody	57	1	(6)	52
Total trust funds	**2,481**	**159**	**(186)**	**2,454**

49. 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 2014, the council had 58,621 surplus permits from 2013-14, valued at £nil. The Council sold 11,104 surplus permits to other local authorities for £4,442 - an average of 40p per permit. £1,505 of this income was paid to Brighton and Hove City Council as part of the Joint Working Agreement between the two Councils.

Surplus allowances were not banked into the 2013/14 year - 2012/13 was the final year of the LATS regulations - surplus allowances were automatically transferred into the National Cancellation Account.

50. 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 will 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 (toxic water) and escaped gases such as methane, carbon dioxide and other gases which may be flammable. in accordance with Environment Agency legislation has made 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. 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 2014 the liability had reduced to £10.02m (£10.12m at 31 March 2013).

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 29), has 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 are valued as Property, Plant & Equipment at £0.7m at 31 March 2014 (£0.7m 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 99 participating employers. A full list of participating employers is given in Note 27.

Fund Account for Year Ended 31 March 2014

Dealings with Members, Employers and Others directly involved in the Fund

2012/13				2013/14	
£000	£000			£000	£000
		Contributions	**Notes**		
(80,556)		From Employers	7	(85,915)	
(26,345)		From Members		(27,012)	
	(106,901)				(112,927)
	(7,854)	**Transfers in from other funds**	8		(9,290)
	(114,755)				**(122,217)**
	106,076	**Benefits Payable**	9		114,518
	4,816	Payments to and on account of leavers	10		7,475
	1,464	Administrative expenses	11		1,598
	112,356				**123,591**
	(2,399)	Net Additions from dealings with members			**1,374**
		Returns on investments			
	(22,490)	Investment income	12		(24,616)
	735	Taxes on Income	13		694
	(256,500)	Profit and losses on disposal of investments and changes in the market value of investments	15a		(120,750)
	7,449	Investment management expenses	14		8,034
	(270,806)	Net returns on investments			**(136,638)**
	(273,205)	Net Increase in fund during the year			(135,264)
	(2,071,071)	Add Opening Net Assets of the Scheme			(2,344,276)
	(2,344,276)	Closing net assets of the scheme			**(2,479,540)**

Net Assets Statement for the year ended 31 March 2014

31 March 2013 £000		Notes	31 March 2014 £000
2,281,664	Investment Assets	15	2,393,629
80,284	Other Investment Balances	20	2,470
58,468	Cash deposits	15	80,934
2,420,416			**2,477,033**
(81,629)	Investment Liabilities	21	(2,338)
9,780	Current Assets	20	9,800
(4,291)	Current Liabilities	21	(4,955)
2,344,276	**Net assets of the fund available to fund benefits at the period end**		**2,479,540**

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 2014 and of the movements for the year then ended.

Marion Kelly
Chief Finance Officer
9 September 2014

The Governance Committee approved the Statement of Accounts on 9 September 2014.

Notes to the East Sussex Pension Fund Accounts

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 2013/14 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 99 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2013	31 March 2014
Number of employers participating in the scheme	82	99
Number of employees		
County Council	9,336	9,442
Other employees	12,011	13,207
Total	**21,347**	**22,649**
Number of pensioners		
County Council	7,160	7,428
Other employers	9,116	9,565
Total	**16,276**	**16,993**
Deferred pensioners		
County Council	10,782	11,321
Other employers	12,040	12,852
Total	**22,822**	**24,173**

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 2013 with the new employer rates being effective from 1 April 2014.

d) Benefits

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

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

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

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

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. 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 2013/14 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.

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

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.

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. 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.

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 are recorded at net market value based on their current yields.

iii) 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 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 judgments 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 2014 was £128.1 million (£126.9 million at 31 March 2013).

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.

Forward exchange contract adjustments
In line with LGPS accounting guidance foreign exchange forward contracts are disclosed on a net basis. A gross basis was used in the prior year. This disclosure change has no impact on the net assets of the fund and no adjustment has been made to the prior year comparator figures.

5: Future assumptions and other estimated uncertainty

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

The items in the Net assets statement at 31 March 2014 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 2013 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 £253 million (9%). • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%). • A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).
Debtors	At 31 March 2014, the fund had a balance of sundry debtors of £1.4 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 £128.1 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 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2012/13	2013/14
	£000	£000
By category		
Employers	80,556	85,915
Members	26,345	27,012
Total	**106,901**	**112,927**
By authority		
Scheduled bodies	60,949	63,059
Admitted bodies	5,135	7,805
Administrative Authority	40,817	42,063
Total	**106,901**	**112,927**

8: Transfers in from other pension funds

	2012/13 £000	2013/14 £000
Group transfers	1,816	2,952
Individual transfers	6,038	6,338
Total	**7,854**	**9,290**

9: Benefits payable

	2012/13 £000	2013/14 £000
By category		
Pensions	79,776	92,736
Commutation and lump sum retirement benefits	25,096	19,634
Lump sum death benefits	1,204	2,148
Total	**106,076**	**114,518**
By authority		
Scheduled bodies	62,500	65,299
Admitted bodies	2,783	3,861
Administrative Authority	40,793	45,358
Total	**106,076**	**114,518**

10: Payments to and on account of leavers

	2012/13 £000	2013/14 £000
Refunds to members leaving service	5	9
Group transfers	-	1,122
Individual transfers	4,811	6,344
Total	**4,816**	**7,475**

11: Administrative expenses

	2012/13 £000	2013/14 £000
Administration and Processing	1,243	1,374
Legal fees	18	11
External audit fees	24	30
Audit Commission Rebate	-	(4)
Internal audit fees	22	15
Actuarial fees	157	172
Total	**1,464**	**1,598**

The External auditor appointed to audit the fund is KPMG (BDO in 2012/13). Fees include only the statutory audit of the fund and no non-audit services have been provided.

12: Investment income

	2012/13 £000	2013/14 £000
Fixed interest securities	2,030	1,900
Index linked securities	547	600
Equity dividends	9,850	11,539
Pooled property investments	6,380	7,189
Pooled investments - unit trusts and other managed funds	3,419	2,983
Interest on cash deposits	243	374
Class Actions	21	31
Total	**22,490**	**24,616**

13: Taxes on income

	2012/13	2013/14
	£000	£000
Withholding tax - equities	(433)	(404)
Withholding tax - pooled	(302)	(290)
Total	**(735)**	**(694)**

14: Investment expenses

	2012/13	2013/14
	£000	£000
Management fees	7,097	7,727
Custody fees	119	148
Performance monitoring service	17	19
Investment consultancy	216	140
Total	**7,449**	**8,034**

During the year, the Pension Fund incurred fees of £2.1m (£2.1m in 2012/13) on its private equity investments. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund. As such, any amounts paid as fees will be reflected in a reduction of the distributions received.

15: Investments

	2012/13	2013/14
	£000	£000
Investment assets		
Fixed interest securities	156,837	162,880
Index Linked	64,412	58,659
Equities	586,818	724,237
Pooled Investments	1,209,533	1,139,887
Pooled property investments	192,773	244,451
Infrastructure	58,898	53,656
Commodities	11,998	6,631
Multi Asset	1,297	3,228
Derivative contracts:		
Forward Currency Contracts	92	316
Purchased /written options	202	-
	2,282,860	**2,393,945**
Cash deposits with Custodian	58,468	80,934
Other Investment balances (Note 20)	80,284	2,154
Total investment assets	**2,421,612**	**2,477,033**
Investment Liabilities (Note 21)	(81,629)	(2,327)
Derivative Contracts - Forward Currency	(1,196)	(11)
Total Investment Liabilities	**(82,825)**	**(2,338)**
Net investment assets	**2,338,787**	**2,474,695**

15a: Reconciliation of movements in investments and derivatives

	Market Value 1 April 2013	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 2014
	£000	£000	£000	£000	£000
Fixed interest securities	**156,837**	1,936	-	4,107	**162,880**
Index Linked	**64,412**	16,404	(17,630)	(4,527)	**58,659**
Equities	**586,818**	515,688	(411,048)	32,779	**724,237**
Pooled investments	**1,209,533**	98,567	(238,696)	70,483	**1,139,887**
Pooled property investments	**192,773**	47,660	(16,336)	20,354	**244,451**
Infrastructure	**58,898**	1,243	(2,098)	(4,387)	**53,656**
Commodities	**11,998**	635	(2,832)	(3,170)	**6,631**
Multi Asset	**1,297**	8,408	(5,410)	(1,067)	**3,228**
	2,282,566	**690,541**	**(694,050)**	**114,572**	**2,393,629**
Derivative contracts					
■ Futures	**-**	632	-	(632)	**-**
■ Purchased/written options	**202**	-	(124)	(78)	**-**
■ Forward currency contracts	**(1,104)**	5,296	(11,058)	7,171	**305**
	2,281,664	**696,469**	**(705,232)**	**121,033**	**2,393,934**
Other investment balances:					
■ Cash deposits	**58,468**			(283)	**80,934**
■ Other Investment Balances	**80,284**				**2,154**
■ Investment Liabilities	**(81,629)**				**(2,327)**
Net investment assets	**2,338,787**			**120,750**	**2,474,695**

	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
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	-	(869)	**1,297**
	2,018,529	**328,749**	**(321,186)**	**256,474**	**2,282,566**
Derivative contracts					
■ Futures	**-**	-	-	-	**-**
■ Purchased/written options	**315**	3,836	(1,727)	(2,223)	**202**
■ Forward currency contracts	**638**	4,397	(9,232)	3,093	**(1,104)**
	2,019,482	**336,982**	**(332,146)**	**257,344**	**2,281,664**
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**

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 £819k (£286k in 2012/13). 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)

	2012/13 £000	2013/14 £000
Fixed interest securities		
UK		
Corporate quoted	156,837	162,880
	156,837	**162,880**
Index linked Securities		
UK		
Public sector quoted	35,105	35,580
Overseas		
Public sector quoted	29,307	23,079
	64,412	**58,659**
Equities		
UK		
Quoted	57,933	75,434
Unquoted	14,439	12,936
Overseas		
Quoted	387,580	507,746
Unquoted	126,866	128,121
	586,818	**724,237**
Pooled funds - additional analysis		
UK		
Unit trusts	699,428	654,420
Overseas		
Unit trusts	510,105	485,467
	1,209,533	**1,139,887**
Pooled property investments	192,773	244,451
Infrastructure	58,898	53,656
Commodities	11,998	6,631
Multi Asset	1,297	3,228
	264,966	**307,966**
	2,282,566	**2,393,629**

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	32,003	JPY	(5,486,773)	16	-
Up to 2 months	EUR	1,073	GBP	(883)	4	-
Up to 2 months	GBP	3,724	CHF	(5,497)	-	(10)
Up to 2 months	GBP	6,812	EUR	(8,202)	29	-
Up to 2 months	GBP	14,198	USD	(23,222)	267	-
Up to 2 months	USD	694	GBP	(417)	-	(1)
					316	(11)
Net forward currency contracts at 31 March 2014						**305**
Prior year comparative						
Open forward currency contracts at 31 March 2013					92	(1,196)
Net forward currency contracts at 31 March 2013						**(1,104)**

Purchased/written options

Investment underlying option contract	Expires	Put / call	Notional holding	Market value 31 March 2013	Notional holding	Market value 31 March 2014
			£000	£000	£000	£000
Assets						
Overseas equity purchased	Less than 1 month	Put	-	202		-
Net purchased/written options				**202**		**-**

Investments analysed by fund manager

	Market value 31 March 2013		Market value 31 March 2014	
	£000	%	£000	%
Prudential M&G	94,010	4.0%	96,060	3.9%
East Sussex Pension Fund Cash	12,861	0.5%	22,975	0.9%
UBS Infrastructure Fund	25,487	1.1%	22,035	0.9%
Prudential Infracapital	33,411	1.4%	31,621	1.3%
Legal & General	987,433	42.2%	647,469	26.3%
M&G UK Financing Fund	14,439	0.6%	12,936	0.5%
Schroders Property	199,421	8.5%	247,740	10.0%
Harbourvest Strategies	61,717	2.6%	60,042	2.4%
Adams St Partners	65,669	2.8%	68,433	2.8%
M&G Absolute Return Bonds	62,828	2.7%	66,828	2.7%
Ruffer LLP	228,645	9.9%	229,982	9.3%
Lazard Asset Management	336,334	14.4%	344,862	13.9%
Newton Investment Management	217,877	9.3%	233,496	9.4%
Longview Partners	-	-	136,926	5.5%
State Street Global Advisers	-	-	253,290	10.2%
	2,340,132		**2,474,695**	

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

Security	Market Value 31 March 2013	% of total fund	Market value 31 March 2014	% of total fund
	£000		£000	
L&G UK Equity Index	452,754	19.3%	398,147	16.1%
State Street Fundamental Index	-	-	253,325	10.2%
Newton Real Return (Pooled Fund)	217,877	9.3%	233,832	9.4%
L&G North America Equity Index	213,329	9.1%	129,967	5.3%
L&G Europe (EX UK) Equity Index	126,872	5.4%	66,828	2.7%

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 2013				31 March 2014		
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			
156,837	-	-	Fixed interest securities	162,880	-	-
64,412	-	-	Index linked	58,659	-	-
586,818	-	-	Equities	724,237	-	-
1,209,533	-	-	Pooled investments	1,139,887	-	-
192,773	-	-	Pooled property investments	244,451	-	-
58,898	-	-	Infrastructure	53,656	-	-
11,998	-	-	Commodities	6,631	-	-
1,297	-	-	Multi Asset	3,228	-	-
294	-	-	Derivative contracts	316	-	-
-	58,468	-	Cash	-	80,934	-
80,284	-	-	Other investment balances	2,154	-	-
-	9,780	-	Debtors	-	9,800	-
2,363,144	68,248	-	**Total Financial Assets**	2,396,099	90,734	-
			Financial liabilities			
(1,196)	-	-	Derivative contracts	(11)	-	-
(81,629)	-	-	Other investment balances	(2,327)	-	-
-	-	(4,291)	Creditors	-	-	(4,955)
(82,825)	-	(4,291)	**Total Financial Liabilities**	(2,338)	-	(4,955)
2,280,319	68,248	(4,291)	**Total Financial Instruments**	2,393,761	90,734	(4,955)

16b: Net gains and losses on financial instruments

	31 March 2013	31 March 2014
	£000	£000
Financial assets		
Fair value through profit and loss	256,473	113,902
Loans and receivables	(843)	(286)
Financial liabilities		
Fair value through profit and loss	870	7,133
Total	**256,500**	**120,750**

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 2013		31 March 2014	
	Carrying value	Fair value	Carrying value	Fair value
	£000	£000	£000	£000
Financial assets				
Fair value through profit and loss	2,363,144	2,363,144	2,396,099	2,396,099
Loans and receivables	68,248	68,248	90,734	90,734
Total financial assets	**2,431,392**	**2,431,392**	**2,486,833**	**2,486,833**
Financial liabilities				
Fair value through profit and loss	(82,825)	(82,825)	(2,338)	(2,338)
Financial liabilities at amortised cost	(4,291)	(4,291)	(4,955)	(4,955)
Total financial liabilities	**(87,116)**	**(87,116)**	**(7,293)**	**(7,293)**

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 2014	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	1,643,063	241,032	512,004	**2,396,099**
Loans and receivables	90,734	-	-	**90,734**
Total financial assets	**1,733,797**	**241,032**	**512,004**	**2,486,833**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(2,338)	-	-	**(2,338)**
Financial liabilities at amortised cost	(4,955)	-	-	**(4,955)**
Total financial liabilities	**(7,293)**	**-**	**-**	**(7,293)**
Net financial assets	**1,726,504**	**241,032**	**512,004**	**2,479,540**

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**

17: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses form shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	Potential Market Movements (+/-)
Bonds	10%
UK equities	17%
Overseas equities	19%
Overseas equity unit trusts	19%
Pooled property investments	15%
Private Equity	28%
Infrastructure funds	16%
Commodities	14%
Cash	1%

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.

Asset Type	Value as at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and Cash Equivalents	80,934	1%	81,743	80,125
Investment portfolio assets:				
Total Bonds	221,539	10%	243,693	199,385
UK equities	742,790	17%	869,064	616,516
Overseas equities	507,746	19%	604,218	411,274
Overseas equity unit trusts	485,467	19%	577,706	393,228
Pooled property investments	244,451	15%	281,119	207,783
Private equity	128,121	28%	163,995	92,247
Infrastructure funds	53,656	16%	62,241	45,071
Commodities	6,631	14%	7,559	5,703
Multi Asset	3,228	0%	3,228	3,228
Net derivative assets	305	0%	305	305
Investment income due	1,787	0%	1,787	1,787
Amounts receivable for sales	359	0%	358	358
Amounts payable for purchases	(671)	0%	(671)	(671)
Total assets available to pay benefits	**2,476,343**		**2,891,280**	**2,061,406**

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%	59,053	57,883
Investment portfolio assets:				
Total Bonds	221,249	11%	245,587	196,912
UK equities	898,666	16%	1,042,452	754,879
Overseas equities	387,580	19%	461,220	313,940
Overseas equity unit trusts	510,105	19%	607,025	413,185
Pooled property investments	192,773	15%	221,689	163,857
Infrastructure funds	58,898	16%	68,321	49,474
Commodities	11,998	14%	13,678	10,318
Multi Asset	1,297	0%	1,297	1,297
Net derivative assets	(903)	0%	(903)	(903)
Investment income due	2,410	0%	2,410	2,410
Amounts receivable for sales	714	0%	714	714
Amounts payable for purchases	(1,769)	0%	(1,769)	(1,769)
Total assets available to pay benefits	**2,341,486**		**2,720,774**	**1,962,197**

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 2014 and 31 March 2013 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 2013	As at 31 March 2014
	£000	£000
Cash with Custodian	58,468	80,934
Cash balances	(176)	(882)
Fixed interest securities:	-	-
UK bonds	156,837	162,880
Total	**215,129**	**242,932**

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 (bps) 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 2014	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	80,934	809	(809)
Cash balances	(882)	(9)	9
Fixed interest securities			
UK bonds	162,880	1,629	(1,629)
Total change in assets available	**242,932**	**2,429**	**(2,429)**

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 balances	(176)	(2)	2
Fixed interest securities			
UK bonds	156,837	1,568	(1,568)
Total change in assets available	**215,129**	**2,151**	**(2,151)**

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 2014 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2013 £000	Asset value as at 31 March 2014 £000
Overseas Index Linked	29,307	23,079
Overseas quoted securities	387,580	507,746
Overseas unit trusts	510,105	485,467
Total overseas assets	**926,992**	**1,016,292**

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 UK 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 2014	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	23,079	26,079	20,079
Overseas quoted securities	507,746	573,753	441,739
Overseas unit trusts	485,467	548,578	422,356
Total change in assets available	**1,016,292**	**1,148,410**	**884,174**

Currency exposure - asset type	Asset value as at 31 March 2013	Change to 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	337,195
Overseas unit trusts	510,105	576,419	443,791
Total change in assets available	**926,992**	**1,047,501**	**806,483**

Summary	Asset value as at 31 March 2013 £000	Asset value as at 31 March 2014 £000
Money market funds		
NTGI Global Cash Fund	57,762	80,209
Bank deposit accounts		
Non NT cash accounts	9	103
Bank current accounts		
NT custody cash accounts	697	622
Total overseas assets	**58,468**	**80,934**

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 2014 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 2013. 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 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.
East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2013/14

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 2013/14.

Description of Funding Policy

The funding policy is set out in the Funding Strategy Statement (FSS), effective from March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

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 2013. This valuation revealed that the fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 28 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 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 2013
Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been slightly higher than that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. 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 2013/14 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 2013 £m	31 Mar 2014 £m
Present value of Promised Retirement Benefits	3,043	3,385

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £1,414m in respect of employee members, £608m in respect of deferred pensioners and £1,363m 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 2014 is to increase the actuarial present value by £105m.

Financial assumptions
My recommended financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a.	31 Mar 2014 % p.a.
Inflation / Pension Increase Rate	2.8%	2.8%
Salary Increase rate	5.1%*	4.6%
Discount Rate	4.5%	4.3%

*Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter

Longevity assumption
As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45

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 post-April 2008 service.

20: Current assets

	31 March 2013 £000	31 March 2014 £000
Other Investment Balances		
Sales inc Currency	77,874	675
Investment Income Due	1,645	1,443
Recoverable Taxes	765	344
Managers Fee Rebate	-	8
Total	**80,284**	**2,470**

	31 March 2013 £000	31 March 2014 £000
Current Assets		
Contributions receivable from employers and employees	7,879	8,267
Sundry Debtors	1,901	1,533
Cash	-	-
Total	**9,780**	**9,800**

21: Current liabilities

	31 March 2013 £000	31 March 2014 £000
Investment Liabilities		
Purchases including currency	(80,034)	(682)
Managers Fees	(1,595)	(1,656)
Accrued Dividend Income	-	-
Total	**(81,629)**	**(2,338)**

	31 March 2013 £000	31 March 2014 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(1,197)	(1,426)
Cash	(176)	(882)
Professional Fees	(60)	(8)
Admin/CBOSS Recharge	(1,239)	(1,013)
Sundry Creditors	(1,619)	(1,626)
Total	**(4,291)**	**(4,955)**

22: Additional voluntary contributions

	Market value 31 March 2013 £000	Market value 31 March 2014 £000
Prudential	14,948	14,568

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2013/14 some members of the pension scheme paid voluntary contributions and transfers in of £1.496m (£1.528m 2012/13) to Prudential to buy extra pension benefits when they retire. £2.571m was disinvested from the AVC provider in 2012/13 (£2.235m 2012/13). 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 £1.0m to the fund in 2013/14. The Council`s contribution to the fund was £42.1m in 2013/14 (£40.8m in 2012/13). All amounts due to the fund were paid in the year. At 31 March 2014 the Pension Fund bank account was overdrawn by £0.882m. The average invested throughout the year was £1.4m (£1.2m in 2012/13) and earned interest of £0.005m in 2013/14 (£0.008m in 2012/13).

Key management personnel

The Chief Finance 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 2014 totalled £122.4m (31 March 2013: £114.2m).

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 2014 the unfunded commitment was £118.0m for private equity, and £4.4m 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 2014.

Surrey and Sussex Probation Board – The Ministry of Justice (MoJ) is planning to merge 35 probation trust pension funds to a single fund hosted within the Local Government Pension Scheme. The MoJ has appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. Work is currently under way to transfer assets to the GMPF between the 1 October 2014 and 31 March 2015. Hymans Robertson are also acting as actuary to GMPF and the estimated assets to be transferred from the East Sussex Pension Fund are circa £85m at end of March 2014 values.

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. 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 on going between the Administering Authority and the Valuation Tribunal Service regarding the payment of the cessation deficit.

25: Contingent assets

Eighteen 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 9 other admitted bodies are covered by:

- 5 guarantees by local authorities participating in the Fund;
- 2 Parent Company Guarantee;
- 2 deposits, equal to the value of the bond required, held by East Sussex County Council.

At 31 March 2014 the Fund has invested £286.8 million to private equity funds managed by Adams Street and Harbourvest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £56.0m in 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 may be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

26: Impairment losses

During 2013/14 the fund has not recognised any impairment losses.

27: East Sussex Pension Fund – Active Participating Employers

Employer	**Contribution Rate**					
	2013/14		**2014/15**		**2015/16**	
	Payroll %	**Amount £**	**Payroll %**	**Amount £**	**Payroll %**	**Amount £**
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	18.0%	-	18.5%	-	19.0%	-
East Sussex County Council	19.1%	-	19.3%	424,000	19.3%	1,179,000
East Sussex Fire & Rescue Service	18.4%	-	18.9%	-	19.4%	-
Eastbourne Borough Council	22.2%	-	19.1%	264,000	19.1%	314,000
Hastings Borough Council	21.8%	-	20.6%	144,000	20.6%	194,300
Lewes District Council	20.5%	-	20.5%	46,500	20.5%	97,000
Rother District Council	23.7%	-	19.7%	307,100	19.7%	355,900
University of Brighton	16.7%	-	19.7%	-	19.7%	-
Wealden District Council	17.5%	473,000	18.0%	409,800	18.5%	427,400
Other Scheduled Bodies						
Aurora Academies Trust	18.7%	17,400	19.9%	10,600	19.9%	16,600
Beacon Academy	20.1%	-	20.6%	-	20.7%	4,400
Bexhill Academy	24.4%	-	20.7%	28,800	20.7%	25,300
BHCC Bilingual Primary School	22.0%	-	12.9%	5,400	12.9%	5,300
Brighton Aldridge Community Academy	17.4%	-	17.9%	-	18.4%	-
Cavendish Academy	20.6%	9,800	18.2%	22,300	18.2%	20,200
Eastbourne Academy	18.9%	-	19.4%	-	19.9%	-
Eastbourne Homes Ltd	17.0%	-	17.5%	-	18.0%	-
Gildredge House Free School	22.0%	-	16.6%	7,200	16.6%	6,700
Glyne Academy	23.7%	-	23.4%	-	23.4%	-
Hailsham Academy	20.9%	-	17.3%	23,800	17.3%	20,800
Helenswood Academy	20.7%	-	19.6%	5,960	19.6%	1,040
King Church of England Free School	22.0%	-	13.7%	980	13.7%	960
Ore Village Primary Academy	20.1%	-	16.6%	7,510	16.6%	6,540
Pebsham Academy	20.1%	-	17.2%	4,300	17.2%	3,500
Portslade Aldridge Community Academy	17.8%	-	18.2%	1,100	18.2%	6,600
Ratton Academy	20.1%	-	20.6%	-	21.1%	-
Ringmer Academy	18.3%	-	18.8%	-	19.3%	-
Rye Academy	24.5%	-	20.0%	22,500	20.0%	20,600
Seaford Academy	23.8%	-	21.6%	12,300	21.6%	9,100
Surrey & Sussex Probation Board	20.1%	-	18.1%	62,000	-	-
The Hastings Academies Trust	18.1%	-	18.4%	4,700	18.4%	17,100
Whitehawk Academy	22.7%	-	21.6%	1,590	21.6%	280
William Parker Academy	20.6%	-	19.6%	5,120	19.6%	-
Town and Parish Councils (pool)						
Battle Town Council	19.6%	-	20.1%	-	20.6%	-
Camber Parish Council	19.6%	-	-	-	-	-
Chailey Parish Council	19.6%	-	20.1%	-	20.6%	-
Chiddingly Parish Council	19.6%	-	20.1%	-	20.6%	-
Conservators of Ashdown Forest	19.6%	-	20.1%	-	20.6%	-
Crowborough Parish Council	19.6%	-	20.1%	-	20.6%	-
Ewhurst Parish Council	19.6%	-	20.1%	-	20.6%	-
Forest Row Parish Council	19.6%	-	20.1%	-	20.6%	-
Hailsham Town Council	19.6%	-	20.1%	-	20.6%	-
Hartfield Parish Council	19.6%	-	20.1%	-	20.6%	-
Heathfield & Waldron Parish Council	19.6%	-	20.1%	-	20.6%	-

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Hurst Green Parish Council	19.6%	-	20.1%	-	20.6%	-
Lewes Town Council	19.6%	-	20.1%	-	20.6%	-
Maresfield Parish Council	19.6%	-	20.1%	-	20.6%	-
Newhaven Town Council	19.6%	-	20.1%	-	20.6%	-
Newick Parish Council	19.6%	-	20.1%	-	20.6%	-
Peacehaven Town Council	19.6%	-	20.1%	-	20.6%	-
Pett Parish Council	19.6%	-	-	-	-	-
Polegate Town Council	19.6%	-	20.1%	-	20.6%	-
Ringmer Parish Council	19.6%	-	20.1%	-	20.6%	-
Rye Town Council	19.6%	-	20.1%	-	20.6%	-
Seaford Town Council	19.6%	-	20.1%	-	20.6%	-
Sussex Inshore Fisheries & Conservation Authority	19.6%	-	20.1%	-	20.6%	-
Telscombe Town Council	19.6%	-	20.1%	-	20.6%	-
Uckfield Town Council	19.6%	-	20.1%	-	20.6%	-
Westham Parish Council	19.6%	-	20.1%	-	20.6%	-
Willingdon & Jevington Parish Council	19.6%	-	20.1%	-	20.6%	-
Colleges						
Bexhill College	16.5%	-	17.0%	-	17.5%	-
Brighton, Hove & Sussex Sixth Form College	16.5%	-	17.0%	-	17.5%	-
City College, Brighton	17.8%	-	17.4%	-	17.4%	68,000
Plumpton College	16.5%	-	17.0%	-	17.5%	-
Sussex Coast College	17.0%	-	17.5%	-	18.0%	-
Sussex Downs College	15.5%	-	16.0%	-	16.5%	-
Varndean Sixth Form College	16.5%	-	17.0%	-	17.5%	-
Community Admission Bodies						
Amicus Horizon	17.5%	228,000	17.5%	388,000	17.5%	472,000
Brighton Dome & Festival	24.1%	3,000	31.0%	-	31.0%	-
Care Quality Commission	20.8%	-	21.3%	-	21.8%	-
De La Warr Pavilion Charitable Trust	20.9%	-	25.1%	-	27.0%	1,900
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.9%	-	22.1%	-	21.2%	-
Hastings Business Operations Limited (HBOL)	15.8%	-	17.2%	-	18.6%	-
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaeological Society	21.5%	26,328	24.2%	31,400	24.2%	35,600
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
Sussex Housing & Care	20.0%	-	20.0%	59,300	20.0%	123,700
University of Sussex	24.0%	136,000	30.9%	169,000	30.9%	198,000
Transferee Admission Bodies						
Amey	26.8%	-	22.9%	-	19.1%	-
BHCC - Peyton and Byrne	21.4%	-	21.1%	-	20.9%	-
Curchill - Cavendish	20.9%	-	26.2%	200	26.2%	1,100
Eastbourne Leisure Trust	13.5%	-	20.9%	-	21.2%	11,700
Eden Foodservices (Initial)	22.4%	-	19.3%	-	16.1%	-
ESCC - Care at Home	25.8%	-	21.5%	-	17.3%	-
ESCC – Churchill	18.0%	-	20.7%	-	23.3%	-
ESCC - John O'Conner Ltd	24.4%	-	19.9%	1,600	16.8%	-
ESCC - NSL Limited	24.7%	-	24.3%	-	23.9%	-
European Electronique LTD	21.4%	-	14.5%	14,700	14.5%	24,700
May Gurney Ltd	20.9%	-	22.8%	-	24.7%	-
Mears Ltd	20.6%	-	24.9%	5,200	24.9%	25,400
MyTime Active Ltd	18.0%	-	20.1%	3,400	20.1%	10,900
Wave Leisure Trust Ltd	15.6%	-	18.8%	-	20.9%	13,100
Wealden and Eastbourne Lifeline (WEL)	18.4%	-	-	-	-	-

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	25.2%	-	24.8%	-	24.4%	-
WDC - Richardson	22.6%	-	21.8%	-	21.0%	-
WDC - Wealden Leisure	16.8%	1,200	22.1%	17,600	22.1%	111,200
BHCC - Wealden Leisure	16.6%	-	20.1%	-	22.6%	4,000
White Rock Theatre	20.8%	1,848	22.4%	8,500	22.4%	18,600

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	6.1	6.8	11.9	7.6
Benchmark	5.9	5.9	11.9	7.5
Relative	0.2	0.9	-	0.1

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	6.1	6.8	11.9	7.6
Local Authority Average	6.4	7.5	12.7	7.8
Relative	(0.3)	(0.7)	(0.8)	(0.2)

The Fund underperformed the average local authority fund over the year by 0.3% (1.1% underperformance 2012/13), ranking the East Sussex Fund in the 59th percentile (74th percentile 2012/13) in the local authority universe. Over three years, the fund underperformed by 0.7% (1.0% underperformance 2012/13) and was placed 81st percentile (87th percentile in 2012/13). Over five years, the fund underperformed by 0.8% (0.3% underperformance 2012/13), and was placed in the 77th percentile (54th percentile 2012/13). Over ten years, the fund underperformed by 0.2% (0.0% underperformance 2012/13), and was placed in the 52nd percentile (44th percentile 2012/13).

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.

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.

Bad Debt Provision

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.

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.

Cash Equivalents

These are investments, which amount to short term deposits.

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.

Currencies

Japanese Yen (JPY), British Pound (GBP), Canadian Dollar (CAD), Swiss Franc (CHF), European Euro (EUR), Swedish Kroner (SEK) and 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.

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.

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 KPMG appointed by the Audit Commission to carry out an audit of the Council's accounts.

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.

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.

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.

IFRS

International Financial Reporting Standards

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.

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.

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.

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.

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.

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.

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 Reserves

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.

Business Services Department

Kevin Foster
Chief Operating Officer

County Hall
St. Anne's Crescent
Lewes
East Sussex
BN7 1UE

Telephone: 0345 6080 190
Fax: 01273 482848
Website: www.eastsussex.gov.uk

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL.

date

9 September 2014

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of East Sussex County Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements of the give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the collection fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;

   ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year;

iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

4. The Authority confirms that its policy of revaluing 20% of its property, plant and equipment assets on a rolling basis and as at the beginning of the period (1 April) rather than as at the balance sheet date of 31 March does not result in a material misstatement of the financial statements as a whole.

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    ii) The Authority has disclosed to you all information in relation to:

    a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
        - management;
        - employees who have significant roles in internal control; or
        - others where the fraud could have a material effect on the financial statements; and

    b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,
        -

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

    This letter was tabled and agreed at the meeting of the Governance Committee on 9 September 2014.

    Yours faithfully

Councillor Keith Glazier
Leader of the Council and Chair of the Governance Committee
For and on behalf of East Sussex County Council

Marion Kelly
Chief Finance Officer

Appendix to the Representation Letter of *East Sussex County Council*: Definitions

Financial Statements

IAS 1.10 states that "a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.".

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

a) A person or a close member of that person’s family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    vi. The entity is controlled, or jointly controlled by a person identified in (a).
    vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).