



**AUDIT COMMITTEE**

**FRIDAY, 17 SEPTEMBER 2021**

**10.00 am COMMITTEE ROOM, COUNTY HALL, LEWES**

**++THE MEETING WILL BE HELD IN PERSON ++**

MEMBERSHIP - Councillor Colin Swansborough (Chair)  
Councillors Matthew Beaver, Gerard Fox (Vice Chair), Nuala Geary,  
Stephen Holt, Matthew Milligan and Georgia Taylor

**A G E N D A**      Items that were marked "to follow" on the original agenda

- 5      Review of the Grant Thornton (GT) Report to those charged with governance and  
Statement of Accounts for 2020/21 (*Pages 3 - 184*)  
Report by the Chief Finance Officer
- 6      Review of the Grant Thornton (GT) report to those charged with governance and  
Pension Fund annual report for 2020/21 (*Pages 185 - 214*)  
Report by the Chief Finance Officer

PHILIP BAKER  
Assistant Chief Executive  
County Hall, St Anne's Crescent  
LEWES BN7 1UE

9 September 2021

Contact Simon Bailey, Democratic Services Officer,  
01273 481935  
Email: [simon.bailey@eastsussex.gov.uk](mailto:simon.bailey@eastsussex.gov.uk)

This page is intentionally left blank

Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Finance Officer**

Title of report: **Review of the Grant Thornton (GT) report to those charged with governance and Statement of Accounts for 2020-21**

Purpose of report: **For the Committee to review the Independent Auditor's (GT) report to those charged with governance prior to its submission to the Governance Committee on 30 September 2021.**

---

**RECOMMENDATIONS: The Committee is asked to:**

- (i) note the report and its appendices; and**
  - (ii) identify any concerns arising from the Independent Auditor's (GT) report or the management response to it, that need to be brought to the attention of the Governance Committee.**
- 

**1. Background**

1.1 This report summarises the key findings arising from the audit work of Grant Thornton (GT) in relation to the Council's 2020/21 financial statements. In previous years this report would have included an assessment on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'): under new National Audit Office, Code of Audit Practice, requirements the VFM conclusion will be reported separately, later in the year.

**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 Statement of Accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit of the accounts.

2.3 The GT report to those charged with governance and the Council's Statement of Accounts for 2020/21, along with the covering report under which they will be taken to the Governance Committee for approval on 30 September 2021 are attached at Appendix A.

2.4 The audit of the 2020/21 Statement of Accounts is now largely completed. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT are anticipating being able to issue an unqualified audit opinion by 29 September 2021.

2.5 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. The report confirms that prior year recommendations have been actioned, and at this stage no specific management actions arising from the 2020/21 audit have been notified.

2.6 In 2019/20 the authority's professional valuer of land and buildings, Montagu Evans, declared material uncertainties relating to the full balance of land and buildings. For 2020/21, the authority's new valuer, Bruton Knowles, has stated that a material uncertainty is not relevant except for leisure and hospitality assets, as the impact of the pandemic continues. As the authority

has only in the region of £15m specific leisure type assets and £2.5m non-specific leisure type assets, GT are satisfied that this uncertainty does not breach the performance materiality of the audit and, therefore, does not need to be disclosed within the statement of accounts.

### **3. Conclusion and reasons for recommendations**

3.1 In carrying out their responsibility for review, Members should consider:

- The findings made by the external auditors as a result of final audit of the 2020/21 accounts;
- Whether there is any issue arising that Members might wish to bring to the attention of the Governance Committee when it meets to approve the Statement of Accounts for 2020/21 on 30 September 2021.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer:	Ian Gutsell, Chief Finance Officer
Tel. No.	01273 481399
Email:	<a href="mailto:Ian.Gutsell@eastsussex.gov.uk">Ian.Gutsell@eastsussex.gov.uk</a>

Local Member(s): All  
Background Documents: None



## Agenda Item

Report to: **Governance Committee**

Date: **30 September 2021**

By: **Chief Finance Officer**

Title of report: **Independent Auditor's, Grant Thornton (GT), Report to those charged with governance and Statement of Accounts for 2020/21.**

Purpose of report: **To present the GT report to those charged with governance, and to report an anticipated unqualified audit opinion on the 2020/21 Statement of Accounts.**

---

### RECOMMENDATIONS - to:

- (i) **Note the Independent Auditor's (GT) Report to those charged with governance on ESCC Accounts.**
  - (ii) **Authorise the Chief Finance Officer to sign the formal Letter of Representation to GT UK LLP.**
  - (iii) **Approve the 2020/21 Statement of Accounts for publication.**
- 

## 1. Background

- 1.1 This report summarises the key findings arising from GT's audit work in relation to the Council's 2019/20 financial statements. In previous years this report would have included an assessment on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'), under new National Audit Office, Code of Audit Practice requirements the VFM conclusion will be reported separately, later in the year.

## 2. Supporting Information

- 2.1 GT UK LLP is obliged to produce a report to those charged with governance on the East Sussex County Council accounts (Appendix A), which formally reports on the outcome of the audit of the Council's statement of accounts.

## 3. Changes to ESCC Statement of Accounts

- 3.1 The Chief Finance Officer (CFO) on 23 July 2021 formally approved the draft Statement of Accounts, in line with the Accounts and Audit 2015 Regulations. Since then the audit has been carried out by GT, and the Regulations require the CFO to report on changes to the accounts before they can be published.
- 3.2 Subject to any issues being identified by GT between the issue of this report and the meeting, the CFO is able to report that the auditors propose to issue an unqualified audit opinion.
- 3.3 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report to those charged with governance. The report confirms that prior year recommendations have been actioned, and at this stage no specific management actions arising from the 2020/21 audit have been notified.

3.4 In 2019/20 the authority's professional valuer of land and buildings, Montagu Evans, declared material uncertainties relating to the full balance of land and buildings. For 2020/21, the authority's new valuer, Bruton Knowles, has stated that a material uncertainty is not relevant except for leisure and hospitality assets, as the impact of the pandemic continues. As the authority has only in the region of £15m specific leisure type assets and £2.5m non-specific leisure type assets, GT are satisfied that this uncertainty does not breach the performance materiality of the audit and, therefore, does not need to be disclosed within the statement of accounts.

3.5 The revised set of accounts is attached at Appendix B.

#### **4. Publication of Statement of Accounts**

4.1 The legal deadline for publishing the 2020/21 accounts is 30 September 2021. Once GT has completed their work, a Letter of Representation needs to be signed by the Chief Finance Officer prior to GT issuing an unqualified opinion. This will enable the 2020/21 Statement of Accounts to be published on the Council's website, which fulfils the legal requirement.

#### **5. Conclusion and reasons for recommendations**

5.1 The Committee to note the Independent Auditor's report to those charged with governance on the ESCC Accounts and to authorize the Chief Finance Officer to sign the Letter of Representation to GT UK LLP.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Ian Gutsell, Chief Finance Officer  
Tel. No. 01273 481399  
Email: [Ian.Gutsell@eastsussex.gov.uk](mailto:Ian.Gutsell@eastsussex.gov.uk)

Local Member(s): All

#### Appendices

Appendix A Independent Auditor's (GT) report to those charged with governance on the East Sussex County Council Accounts and Value for Money conclusion

Appendix B ESCC 2019/20 Statement of Accounts

Appendix C Letter of Representation



# The Audit Findings for East Sussex County Council

**Year ended 31 March 2021**

East Sussex County Council  
17 September 2021

Page 7



# Contents



**Your key Grant Thornton team members are:**

**Darren Wells**

Key Audit Partner  
E Darren.J.Wells@uk.gt.com

**Andy Conlan**

Senior Manager  
E Andy.N.Conlan@uk.gt.com

**Phoebe Yeung**

Assistant Manager  
E Phoebe.Yeung@uk.gt.com

**Ke Ma**

In-Charge  
E Ke.Ma@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	5-19
3. Value for money arrangements	20-21
5. Independence and ethics	22-23
<b>Appendices</b>	
A. Follow up of prior year recommendations	25
B. Audit adjustments	26-27
C. Fees	28-29
D. Audit Opinion	29-31
E. Letter in respect of delayed VFM work]	32

**This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.**

**Name : Darren Wells  
For Grant Thornton UK LLP  
Date : 17 September 2021**

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Page 9

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to September. Our findings are summarised on pages 5 to 19. From the audit work carried out to the date of the drafting of this report, we have not identified any adjustments to the financial statements that have adjusted the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also obtained an update on recommendations for management made as a result of our audit work in the prior year in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

At the time of drafting this report, in the first week of September, there is very good progress with the audit but work is ongoing with a planned sign off of the auditor's report by the end of September subject to clearance of all audit queries and completion/review of the audit file. There are currently no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the clearance of the following work and outstanding matters;

- Completion of our work around the valuation of land and buildings, including any challenge which may arise from our involvement of our auditor's valuation expert and sample testing of the valuation methodology as applied. A response from the auditor's valuer is anticipated on 17 September 2021;
- Receipt and testing of outstanding sample evidence/documentation in operating expenditure, unrecorded liabilities, accrual payables, agency expenditure, grant revenues, fees/charges/other revenues, and creditors cut off (see a summary of sample testing outstanding on page 6);
- Clearance of queries and challenge related to the pension liability estimate including some queries with the actuary relating to the reasonableness of the assumptions adopted;
- obtaining assurances from the auditor of East Sussex Pension Fund as to the completeness and accuracy of data provided by the Pension Fund administrator;
- Completion and review of our work around the Council's estimate of the Minimum Revenue Provision;
- Closing a number of queries around how the PFI models were updated in year, and the reasonableness of these updates;
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- review of a final set of updated financial statements.

Completion of these audit procedures could result in the identification of errors or adjustments in the financial statements which could be material, though we currently have not identified any such adjustments. We will update the Committee on progress and any further findings when presenting the report on the 17 September 2021.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have so far in our work not identified a risk of significant weakness in the arrangements.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

# 2. Financial Statements

Page 11

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 26 March 2021.

## Conclusion

As stated on page 3 we have made good progress on completion of the audit to the date of drafting this report, and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the 29 September 2021, as detailed in [Appendix D]. These outstanding items are set out on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As in the previous year, the pandemic has impacted on the audit insofar as the audit team delivered the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council. Although the working arrangements do mean audit processes take longer the two teams have worked closely and collaboratively to ensure progress, working towards the aim of signing the auditor's report by 29 September 2021.

Signed:  
Darren Wells, Key Audit Partner

## 2. Financial Statements –sample testing progress

As the Audit Findings Report is produced and shared while audit remains on-going . At the time of preparing this report on the 9<sup>th</sup> of September the following work is still being completed by the team. The majority of these relate to follow up requests /clarification with your finance team where it has taken quite a significant amount of time to close down further queries on our sample. Note the outstanding samples on PPE revaluations are being worked on by our team as stated on page 3. We will provide a verbal update on the progress of these at the Integrated Audit Committee meeting on 17<sup>th</sup> September.

Work stream	Outstanding	Total Sample	Percentage Complete
Grant Income	5	42	88%
Unrecorded liabilities	8	37	78%
Fees and charges	3	18	83%
Payroll expenditure	2	8	75%
Accruals payable	5	8	38%
Other service expenditure	3	39	92%
REFCUS	1	11	91%
PPE - revaluations	17	35	51%



# 2. Financial Statements



## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 26 March 2021. We detail in the table adjacent our determination of materiality.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£13.4m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£10.1m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to “aggregation risk”.
Trivial matters	£0.7m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance
Materiality for cash and cash equivalents	£0.5m	Our assessment of what users would consider to be material with respect to cash.
Materiality for senior officer remuneration disclosures	£0.05m	Our assessment of what users would consider to be material with respect to senior officer remuneration disclosures.



# 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of <b>management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</b></p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>- evaluated the design effectiveness of management controls over journals;</li><li>- analysed the journals listing and determined the criteria for selecting high risk unusual journals ;</li><li>- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;</li><li>- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.</li></ul> <p>Our audit work has not identified any further issues in respect of management override of controls, though note this work is still subject to Manager and Director review.</p>



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### ISA240 fraudulent revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We considered all revenue streams of the Council and we have rebutted this risk for all revenue streams.

For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.

For other revenue streams, we determined from our experience as your auditor from the previous 2 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including East Sussex County Council, mean that all forms of fraud are seen as unacceptable.

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

- evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;
- updated our understanding of your system for accounting for income and evaluated the design of the associated controls;
- reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and
- evaluated and challenged significant estimates and the judgments made by management in the recognition of income.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of revenue recognition.

### Fraudulent expenditure recognition

We also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We considered each material expenditure area, and the control environment for accounting recognition.

We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as:

- The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;
- We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits;
- Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

- evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with LG Code of Practice;
- updated our understanding of your system for accounting for expenditure and evaluated the design of the associated controls;
- reviewed and sample tested expenditure to supporting evidence corroborating the occurrence of the service/good obtained and the accuracy of the amount recognised; and
- evaluated and challenged significant estimates and the judgments made by management in the recognition of expenditure.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of revenue recognition.

# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Valuation of land and buildings

You revalue your operational land and buildings on a rolling three yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk.

You have engaged a new valuer Bruton Knowles in the 2020/21 year and therefore this increases the risk of misstatement, as they apply potentially different methods and assumptions. As a result of the change in valuer, you chose to revalue all of your land and buildings in the 2020/21 year.

### We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register;
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section.

Our audit work so far has not identified any issues in respect of valuation of land and buildings. However this work is still in progress and outstanding items are included on page 3.

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£559.3m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. We focused the significant risk to assumptions used by the actuary. You engaged a new actuary Barnett Waddingham in the 2020/21 year and therefore this increases the risk of misstatement, as they could apply potentially different assumptions.</p>	<p>For the significant risk, we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their new management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p>We have also:</p> <ul style="list-style-type: none"> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> </ul> <p>There are a small number of audit queries outstanding from this work, and we still need to obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The work to provide these assurances is not yet complete.</p> <p>Our audit work so far has not identified any issues in respect of valuation of the pension fund net liability.</p>

## 2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
<p><b>Accuracy and accounting for Private Finance Initiative (PFI) liability</b></p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed your PFI models and assumptions contained therein;</li> <li>• obtained an understanding of any changes to PFI contracts made since the prior year;</li> <li>• compared the your PFI models to the prior year to identify any changes;</li> <li>• reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements;</li> <li>• reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.</li> </ul> <p>We have completed these steps, but have a number of queries outstanding with your finance team related to how the PFI models were updated in the year, and the reasonableness of these updates in producing materially correct PFI disclosures and accounting entries.</p>



## 2. Financial Statements – key judgements and estimates

Audit Committee – ESCC Accounts – Appendix A

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £366.6m	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council engaged a new valuer Bruton Knowles (previously Montagu Evans) to complete the valuation of properties as at 31 March 2021. All assets were revalued at this date. The Council intends to revalue the land and buildings on a three yearly cyclical basis.</p> <p>Management carry out some assessment of their assets for any impairments; no material impairments were noted.</p> <p>The total year end valuation of Other land and buildings was £366.6m a net increase of £1.4m from 2019/20 (£365.2m).</p>	<ul style="list-style-type: none"> <li>We carried out detailed risk assessment processes to understand the methods, assumptions and data which is used to produce this estimate. We assessed these to be appropriate.</li> <li>We assessed management's valuer to be competent, capable and objective;</li> <li>The overall valuation method remains consistent with the prior year;</li> <li>We reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies;</li> <li>We engaged our own valuation expert, to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the land and buildings revalued in 2020/21. <b>This work is in progress and could raise additional queries/challenge around the valuation. This work to date has not identified any issues. We anticipate receiving the report from our auditor's expert on 17 September 2021;</b></li> <li>We considered and reviewed the engagement with the new valuer, including the Council's instructions to the valuer for the valuation and information which was communicated from the Council to enable the valuation;</li> <li>We carried out sample testing to validate sources of information used in producing the estimate;</li> <li>We carried out detailed testing of the valuation of any assets which had changed value significantly year on year, or which were significantly different from our expectation of the valuation as guided by indices provided by our own expert;</li> <li>Where the basis or method of valuing specific assets had changed year on year (with the change in valuer) we carried out specific and testing to gain assurance that any change was reasonable;</li> <li>We confirmed consistency of the estimate and the reasonableness of changes against data produced by our own expert valuers;</li> <li>All land and building assets were revalued in 2020/21 so there was not a risk of assets being materially misstated due to not being revalued to the current year end date;</li> <li>We agreed the valuation report to the fixed asset register and the statement of accounts;</li> </ul> <p>In the 2019/20 year we reported to you that the professional valuer had declared material uncertainties relating to the full balance of land and buildings in that year. In 2020/21 your current valuer has stated that a material uncertainty is not relevant except for leisure and hospitality assets. The council has around £15m of DRC leisure type assets, and £2.5m of EUV related leisure assets. We were therefore satisfied that this uncertainty would not be considered a material uncertainty for the council as none of those assets are individually above our performance materiality, and therefore there would need to be a very significant (80% and over) misstatement in the valuation of all these assets to cause a material misstatement. We consider this risk to be remote. We were therefore satisfied that this would not need disclosure as a material uncertainty in the financial statements.</p> <p>Subject to satisfactory resolution of matters identified on page 3, we are satisfied that the key estimates and judgements underlying the revaluation estimate for land and building is reasonable.</p>	

### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - key judgements and estimates

Audit Committee - ESOC Accounts - Appendix A

Page 19

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £559.4m	<p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>The Council's net pension liability at 31 March 2021 is £559.4m (2019 £416.9m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged a new actuarial valuation expert for the 2020/21 year; Barnett Waddingham (previously Hymans Robertson) to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £89m net actuarial loss during 2020/21 (2019/20: £144m gain).</p>	<ul style="list-style-type: none"><li>We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;</li><li>We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations;</li><li>We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verify the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;</li><li>The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable:</li></ul> <table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>1.95%</td><td>1.95-2.05%</td><td></td></tr><tr><td>Pension increase rate</td><td>2.85%</td><td>2.8-2.85%</td><td></td></tr><tr><td>Salary growth</td><td>2.85%</td><td>3.85%</td><td>Work ongoing</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>21.1 years</td><td>TBC</td><td>Work ongoing</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>23.7</td><td>TBC</td><td>Work ongoing</td></tr></table> <ul style="list-style-type: none"><li>We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted.</li><li>We have contacted the auditor of the pension fund accounts to obtain assurances over the completeness and accuracy of information which has been provided to the actuary for determining the estimate. We have also carried out testing back to support held by the Council.</li><li>In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year where the expert has changed to assess and challenge whether this is reasonable.</li><li>We assessed the reasonableness of the Council's share of LPS pension assets.</li><li>We assessed the reasonableness of increase/decrease in estimate.</li><li>We reviewed the adequacy of disclosure of estimate in the financial statements.</li></ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	1.95%	1.95-2.05%		Pension increase rate	2.85%	2.8-2.85%		Salary growth	2.85%	3.85%	Work ongoing	Life expectancy – Males currently aged 45 / 65	21.1 years	TBC	Work ongoing	Life expectancy – Females currently aged 45 / 65	23.7	TBC	Work ongoing	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	1.95%	1.95-2.05%																									
Pension increase rate	2.85%	2.8-2.85%																									
Salary growth	2.85%	3.85%	Work ongoing																								
Life expectancy – Males currently aged 45 / 65	21.1 years	TBC	Work ongoing																								
Life expectancy – Females currently aged 45 / 65	23.7	TBC	Work ongoing																								

## Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
Minimum Revenue Provision - £7m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £7m, a net decrease of £3.5m from 2019/20.</p>	<p>We are currently completing our work reviewing your estimate of MRP to conclude:</p> <ul style="list-style-type: none"> <li>• whether the MRP has been calculated in line with the statutory guidance;</li> <li>• whether the Council’s policy on MRP complies with statutory guidance;</li> <li>• Assess whether any changes to the authority's policy on MRP has been discussed and agreed with those charged with governance and has been approved by full council;</li> <li>• The reasonableness of the increase/decrease in MRP charge.</li> </ul> <p>Our work is in progress and will be subject to technical review by the Manager and Director which will be completed during September as recorded on page 3.</p>	Currently no issues highlighted, but subject to management technical review.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- Light Purple We consider management’s process is appropriate and key assumptions are neither optimistic or cautious



# 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A signed letter of representation has been requested.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completion of the audit procedures detailed on page 3, our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA [UK] 570).

Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2013 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 986" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p data-bbox="871 1002 2051 1141">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1157 1973 1295" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council's financial reporting framework</li> <li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="871 1311 2051 1334">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1350 2051 1447" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect– refer to appendix D</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement <b>does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</b></li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters.</p>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of [£500m] we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the work is planned to be completed subsequent to the accounts audit and signing of the financial statements. This would mean we cannot issue our completion certificate until this work has been finished.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to delay the certification of the closure of the 2020/21 audit of <b>the Council</b> in the audit report, as detailed in Appendix D, due to incomplete VFM work and WGA procedures.</p>

# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date we have not identified any such significant risks in the arrangements.

# 5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)



# 5. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,000	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £110,850 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.</p> <p>It should be noted that the fee anticipated and included in the draft accounts was £5,000. We have recently revisited this fee and we have proposed a slight increase to £7,000. This fee increase was due to challenges encountered in finalising this work in the 2018/19 year which required additional staff time not factored into the fee proposal.</p>
		Self review (because GT provides audit services)	
Report on Certificate of Expenditure on Strategic School Improvement Fund	£5,000	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £110,850 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.</p> <p>It should be noted that this work was requested and agreed in October 2020 and as such was not accrued as a fee into the 2019/20 year. This amount is trivial within the accounts materiality, and as such we have not considered this to be a reportable error.</p>
		Self review (because GT provides audit services)	

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

# Appendices

# A. Follow up of prior year recommendations

Page 31

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in 1 recommendations being reported in our 2019/20 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Prompt updating of the leases register</b></p> <p>During our lease testing we identified a lease which was on the lease register and therefore part of the accounts disclosure of lease commitments, which was in fact no longer an ongoing lease commitment for the Council.</p> <p>There were £3.6m of forward commitments disclosed relating to this lease. On discussion with management the accounts disclosure was updated to correct the error. There is a risk that if the lease register is not correctly and promptly updated that the financial information that feeds into the accounts and forecasting processes for the Council could be inaccurate and as observed for the 2019/20 accounts this could lead to misstatement of disclosures in the accounts.</p> <p>In this case the misstatement was not material, but this type of error could potentially cause a material misstatement.</p>	<p>A new Property records system has been procured and implemented during 2020/21 – TechForge – providing an up to date repository for a range of Property data, including leases. This would adequately address the risk and recommendation.</p>

- Assessment**
- ✓ Action completed
  - X Not yet addressed

# B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

We have not identified any adjusted misstatements in the work carried out to date.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Narrative Report – non-financial performance review	<p>Our review of the Narrative Report for compliance with the requirements of the CIPFA Code identified that the report did not include a non-financial performance review as required.</p> <p><b>Management response</b></p> <p>Agreed and the report was updated to include a hyperlink to this information.</p>	✓
Note 32b Officers’ Remuneration	<p>We identified 2 minor disclosure errors in this note. These were due to the format of presentation in the Note and were not due to errors in the underlying financial amounts recorded in the general ledger/payroll system.</p> <p><b>Management response</b></p> <p>Agreed and Note 32b was amended to correctly disclosure officers’ remuneration.</p>	✓
Various minor casting amendments	<p>We identified a small number of minor casting and disclosure issues.</p> <p><b>Management response</b></p> <p>Agreed and these were amended in the accounts.</p>	✓
Estimation uncertainty note	<p>We recommended that some of the disclosures of estimation uncertainty were not truly material sources of estimation uncertainty as per the Code and did not require disclosure.</p> <p><b>Management response</b></p> <p>Agreed and these were amended in the accounts.</p>	✓

# B. Audit Adjustments

## Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in the work carried out to date.

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>Operating expenditure</b>  We identified items in our sample testing a credit entry included in operating expenditure which should have been classified as revenues. Note that this error represented one item of £16,311 out of a larger sample tested where we found no further errors.  Where we encounter such errors we are required to extrapolate these to estimate the maximum potential error in the overall population in order to gain comfort that the overall error rate indicated from our sample could not materially misstate the accounts.  We were able to isolate and extrapolate this error to estimate the overall potential impact of the error and demonstrate this would not be material, and this has recorded as an extrapolated unadjusted misstatement. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	DR Operating Expenditure 5,153k  CR Other Revenues (5,153k)	Nil	Nil	The difference is not material
<b>Other Debtors</b>  In our sample testing of other debtors we found one item of £420,360 which we concluded had not been accounted for correctly as a debtor. This was an insurance case debtor which due to the terms of the insurance was not in fact covered, and would therefore need to be covered internally.  As above, where we encounter such errors we are required to extrapolate these to estimate the maximum potential error in the overall population. We completed this and we were able to gain comfort that the overall error rate indicated from our sample could not materially misstate the accounts. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	DR Fees and charges 4,023k	CR Other Debtors (4,023k)	4,023k	The difference is not material
<b>Overall impact</b>	<b>4,023</b>	<b>(4,023k)</b>	<b>4,023k</b>	

# C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	110,850	TBC
Total audit fees (excluding VAT)	£110,850	£TBC

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	7,000	TBC
Certification of Teachers Pension Return		
Other	5,000	5,000
Report on Certificate of Expenditure on Strategic School Improvement Fund		
Total non-audit fees (excluding VAT)	£12,000	£TBC

# Audit fees –detailed analysis

Scale fee published by PSAA	£64,350
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures for Property, Plant and Equipment (including £5,000 for engagement with an auditor's expert valuer)	£10,000
Enhanced audit procedures for Pensions	£3,000
<i>New issues for 2020/21</i>	
Increase in respect of additional work on Value for Money under new NAO Code	£19,000
Impact of new auditing standards	£11,500
Total audit fees (excluding VAT)	£110,850

# D. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report:

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

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ('the Code of Audit Practice') approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

#### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.



# D. Audit opinion (continued)

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 1972 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries
  - Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual manual journal entries;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

# D. Audit opinion (continued)

## Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

### Responsibilities of the Authority

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

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for East Sussex County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, completed specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack and issued our Auditor's Annual Report.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name Darren Wells, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

# E. Audit letter in respect of delayed VFM work

Commercial in confidence

Audit Committee - ESCC Accounts - Appendix A

Commercial in confidence



Our ref: ESCC 2020/21 VFM

The Audit Committee  
East Sussex County Council  
County Hall  
Lewes, East Sussex  
BN7 1UE

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2A 1AG  
T +44 (0)20 7383 5100  
F +44 (0)20 7184 4301

10 September 2021

For the attention of those charged with governance (the Audit Committee, East Sussex County Council)

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 29 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Darren Wells  
Director

Chartered Accountants. Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: <https://www.grantthornton.co.uk>. Registered office: 30 Finsbury Square, London EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [grantthornton.co.uk](https://www.grantthornton.co.uk) for further details.

[grantthornton.co.uk](https://www.grantthornton.co.uk)



# **East Sussex County Council**

## **Statement of Accounts**

### **2020/21**

Contents	Page
Narrative Report	4
Statement of Responsibilities for the Statement of Accounts	15
Independent Auditor's Report to East Sussex County Council	16
Annual Governance Statement	19
Accounting Statements	
Comprehensive Income and Expenditure Statement	28
Movement in Reserves Statement	29
Balance Sheet	31
Cash Flow Statement	32
Notes to the Accounting Statements	33
East Sussex Pension Fund Accounts	105
Glossary of Terms	140

#### 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 Council's budget and finances can also be found on the website

Further information on particular aspects of the County Council's finances may be obtained from:

Joanna Knightley  
Financial Accounting Team  
P O Box 3  
County Hall  
Lewes, East Sussex  
BN7 1UE

or by email to: [ClosureOfAccounts@eastsussex.gov.uk](mailto:ClosureOfAccounts@eastsussex.gov.uk)

## Index of Notes to the Accounting Statements

Note	Page
1. Authorisation of the Statement of Accounts.....	33
2. Accounting Policies .....	33
3. Accounting Standards that have been issued but have not yet been adopted .....	48
4. Critical Judgements in applying Accounting Policies .....	48
5. Assumptions made about the future and other major sources of estimation uncertainty .....	50
6. Expenditure and Funding Analysis.....	52
7. Adjustments between accounting basis and funding basis under regulations .....	56
8. Material items of income and expenses.....	58
9. Events after the Balance Sheet date.....	58
10. Transfers to/from Earmarked Reserves.....	59
11. Other Operating Expenditure .....	60
12. Financing and Investment Income and Expenditure .....	60
13. Taxation and Non Specific Grant Income .....	61
14. Property, Plant, and Equipment .....	62
15. Investment Properties .....	66
16. Intangible Assets.....	67
17. Heritage Assets .....	69
18. Financial Instruments .....	70
19. Assets Held for Sale .....	73
20. Current & Long Term Debtors and Payments in Advance.....	74
21. Cash and Cash Equivalents, Bank overdraft and accrued balances for third parties .....	74
22. Creditors and Income in Advance.....	75
23. Provisions.....	75
24. Usable Reserves.....	76
25. Unusable Reserves.....	77
26. Cash Flow Statement – Operating Activities .....	81
27. Cash Flow Statement – Investing Activities .....	81
28. Cash Flow Statement – Financing Activities .....	82
29. Cash Flow Statement – Reconciliation of Liabilities arising from Financing Activities.....	82
30. Pooled Budget and Partnership Arrangements.....	82
31. Members’ Allowances .....	83
32. Officers’ Remuneration .....	85
33. Termination Benefits & Exit Packages .....	87

34.	External Audit Costs.....	87
35.	Grant Income .....	89
36.	Dedicated Schools Grant .....	89
37.	Related Parties.....	90
38.	Capital Expenditure and Capital Financing.....	91
39.	Leases.....	92
40.	Other long term liabilities, including Private Finance Initiatives and Similar Contracts .....	93
41.	Pensions Schemes Accounted for as Defined Contribution Schemes.....	95
42.	Defined Benefits Pension Schemes .....	95
43.	Contingent Liabilities .....	99
44.	Contingent Assets .....	99
45.	Nature and extent of risks arising from Financial Instruments .....	100
46.	Trust Funds .....	104
47.	Closed Landfill Sites .....	104



## Narrative Report

### About East Sussex County Council

East Sussex County Council (ESCC) is one of 26 county councils in England, covering an area of around 172,000 hectares, with a population of about 563,000 people. The Council forms the upper tier of local government within East Sussex (excluding Brighton & Hove).

East Sussex has a rich natural environment, with over two thirds of the county being covered by one or more environmental designations: the three largest being Area of Outstanding Natural Beauty 43.5%, Environmental Stewardship Agreement 15.6% and National Park 12.0%. The key habitats are grassland, arable farmland and woodland.

The county is divided into 50 electoral divisions, each represented by one Councillor. Local elections are held every four years, with the last taking place on 6 May 2021. Councillors make sure that the services that ESCC provides meet the needs of residents and those who work in the county, by setting the overall policies and strategies for the Council and by monitoring the way in which these are carried out.

They have set four overarching priority outcomes: driving sustainable economic growth; keeping vulnerable people safe; helping people help themselves; and making best use of resources in the short and long term. Making best use of resources in the short and long term is the gateway priority through which any activity and accompanying resources must pass.



Chief Officers, led by our Chief Executive Becky Shaw, help Councillors to develop policies and objectives. Their main role is to provide the public with the highest possible standards of service within the money that the Councillors make available.

Council Officers are the people who work for the Council and who are paid to deliver the services agreed by Councillors. Overall, the workforce comprises 9,411 people and 7,372 'full time equivalent' employees as at 31 March 2021.

The five ESCC departments and their main responsibilities are:

- Adult Social Care and Health: Provide social care services for residents over 16, including residential care and sensory care services. It also has the public health remit.
- Children's Services: Provide social care for people under 16, state education and other childcare services.
- 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.
- Business Services: Responsible for managing our finances, IT, human resources, procurement and property.
- Governance Services: Provides advice on governance of the Council, including legal and constitutional arrangements.

### Financial Report

For East Sussex, the impact of the COVID-19 pandemic started to be felt from March 2020 and, in line with CIPFA Bulletin 09, issued in April 2021, the statement of accounts has been prepared with appropriate reference to COVID-19.

The net outturn at year end was £402.96m against a revised net budget of £402.71m, a net overspend of £0.25m. This is after transfers to reserves and before Corporate Funding and therefore differs in presentation from the Q4 Monitoring Report.

### The 2020/21 Approved Budget

The Council's 2020/21 original net budget of £403.4m comprises three main elements: Council Tax, business rates and Government grant. The level of grant funding to Local Government has been reducing, ahead of promised funding reform. The revenue support grant received by the Council will have reduced to £1.3m by 2023/24.

The Council's business planning process, known as Reconciling Policy, Performance and Resources (RPPR):

- Enables us to be business-like and test comparative returns on investment so that the Council can be confident it is making best use of resources. It also ensures savings in one area do not give rise to unforeseen consequences in another area;
- Maximises efficiency, exploits technology, and makes the best use of all our assets;

## Narrative Report

- Maximises East Sussex resources through strong partnership working, income generation, lobbying and exploring new ways of working;
- Removes management and support costs wherever possible, to maximise the resources available to the front line;
- Sustains investment in activity that will most help manage demand;
- Encourages communities to help achieve their priority outcomes;
- Is open and transparent to provide clarity about priorities and consequences, specifying clearly what the County Council will do;
- Delivers service change and facilitative programmes aimed at providing modern services which meet the needs of local people, working with others to do this in a way that makes the best use of resources; and
- Uses our local evidence base to meet the most important needs of our communities and leading to innovative solutions which build a compelling future, rather than managing decline.

The Council's RPPR process matches available resources with delivery plans for priority outcomes. It has enabled us to give relative protection to priority services. The RPPR process has been applied across all services in the development of the Council Plan supported by the Medium Term Financial Plan (MTFP) and Capital Programme. Savings of over £135m have been made between 2010/11 and 2020/21, with further savings planned as funding continues to be constrained whilst demands for our services grows.

One-off funding for 2020/21 announced in the Spending Round offered the welcome opportunity to invest in services to reduce future demand, make one-off capital investment and reprofile savings. Chief Officers developed options for use of this funding that was considered by Scrutiny Committees and Members, noting that the funding could only be used once and therefore did not change the savings requirement or budget gap over the MTFP period. The options were developed with consideration of the following principles:

- No ongoing revenue costs which add to future savings are created;
- Future pressures and/or demand are reduced;
- The effect on partners is considered; and
- Recognising the MTFP is for 3 years, the funding does not have to be spent in year one.

Investment totalling £6.5m was approved; £1.1m to reprofile savings, £4.2m one-off revenue investment and £1.1m one-off capital investment. Due to the impact of the pandemic, the profile of savings has changed further, and the revenue projects have slipped to future years.

The Capital Programme is also very constrained by limited resources. In the past, Members have been able to meet core need and make investment in the County's economy, for example significant additional investment in road and broadband infrastructure. The current programme, based on an assumption of significantly reduced future funding, contains only basic need for school places, highways, building maintenance, ICT, libraries and house adaptations.

The Authority's 10 year planned programme is supported by a 20 year Capital Strategy. The purpose of the strategy is to drive the authority's capital investment ambition in support of the Council Plan, whilst ensuring appropriate capital expenditure, capital financing and treasury management. The strategy was approved by Council as part of the RPPR process, the link is below.

The revenue and capital budget for 2020/21 was presented to Council on 11 February 2020. Attached below is a link to the report on the Council's website:

[Agenda for Full Council on Tuesday, 11th February, 2020, 10.00 am | East Sussex County Council](#)

### COVID-19 in 2020/21 and beyond

Since the pandemic began, staff across the Council have been, and continue to be, delivering a huge amount of work to support the ongoing national and local response to the pandemic. Services continue to be adapted to meet the challenging situation over the winter and maintained focus on looking after the most vulnerable people and preventing Covid-19 transmission wherever possible.

A report detailing the Council's COVID-19 response and future plans was presented to Cabinet on 20 April 2021, the link to the report on the Council's website is:

[\(Public Pack\)Agenda Document for Cabinet, 20/04/2021 10:00 \(eastsussex.gov.uk\)](#)

Since November 2020 the Council responded to increasing case rates, including the emergence of new variants of Covid-19, the tightening of restrictions locally and subsequent national lockdown, and the second period of schools being closed to most pupils. Although some frontline staff have worked from office bases or directly with clients throughout the pandemic where this has been essential to maintain services, many staff have now been working from home for over a year in order to help contain the spread of the virus and to prioritise the use of buildings for essential purposes.

Members have received regular briefings on the work the Council is undertaking to help tackle the Covid-19 pandemic and progress has been reported through the quarterly monitoring process as well as specific reports to Cabinet.

## Narrative Report

### Key Financial Implications

The Council undertook service and financial planning for 2021/22 in the new context. Through the well-established Reconciling Policy, Performance and Resources process, the Council integrated planning for the recovery from Covid-19 with understanding of other trends and pressures to form an integrated view of future service needs set out in the Council Plan and financial plans for the coming year. Planning recognised that the changes made, and the economic upheaval brought about by the pandemic have had profound and potentially permanent impacts on services and finances.

The Council has monitored all the additional costs incurred as a result of its response to the pandemic. Whilst the Government has made additional funding available to reflect the additional costs to local authorities in 2020/21, with some continuing into 2021/22, lobbying with continue for longer-term, sustainable funding to continue to meet residents' needs and to support recovery, particularly in relation to adult social care. The Council will continue to emphasise the potential for the pandemic and accompanying economic disruption to increase demand for local services in future, and the need for a funding settlement for local government that reflects that in the next Spending Review.

COVID-19 related revenue pressures in each department totalled £66.8m in 2021/22. The main headlines were:

Dept	£m	Description
ASC	45.7	Including £22.9m distributed to providers, £19.1m to secure timely hospital discharges, £1.9m on PPE and £1.6m on support to vulnerable and shielded groups delivered via the Community Hubs.
CSD	13.2	Key pressures included £3.7m placements costs, £1.6m activity relating to the Winter Grant Scheme, £1.4m income loss at Lansdowne residential children's home, £1.3m Home to Schools Transport, £0.9m support to schools for social distancing measures, £0.8m agency costs at Lansdowne, £0.6m incentivisation payments to Early Years providers, £0.5m Locality, £0.4m agency staffing in Brodrick Road, Homefield Cottage and Hazel Lodge residential children's homes and £0.4m Youth Homeless placements.
CET	6.0	The most significant pressures were in Transport and Operations where car parking income was down £2.5m. Increased collection volumes and the cost of reopening household waste sites with social distancing, resulted in a COVID-19 related overspend of £1.2m in the Waste service. The overspend of £0.7m in Customer, Libraries and Registration was mostly due to lost income from marriages and other ceremonies, income from Libraries, and reduced Road Safety training.
BSD	1.2	Additional expenditure was incurred, for example additional cleaning and staff, as well as the loss of income streams with HR&OD and Property due to closure of various premises. There was also a savings target within the Council's contribution to Orbis, which has been delayed.
PH	0.7	Activity relating to Test & Trace, community mass testing and Contain Outbreak Management.
	<b>66.8</b>	

Within Centrally Held Budgets and Corporate Funding there were further COVID-19 related pressures of £2.4m, the key areas being £0.6m reduced investment income within Treasury Management, a capital overspend of £1.2m, £0.1m for Corporate PPE costs within Levies Grants & Other, and reduced proceeds of £0.5m from the Business Rates Pool with Districts and Boroughs.

The COVID-19 related pressures and slippage in the 2020/21 capital programme comprised a net £1.3m; of which there was a net £1.2m overspend (reduced by £0.4m for project specific funding received), and £2.5m slippage. The £1.2m overspend has been funded from government grant in order to maintain the integrity of the basic need targets set. Ongoing pressures on the programme will continue to be reviewed as part of the Council's performance monitoring process and funding options will be considered if specific mitigations are not forthcoming.

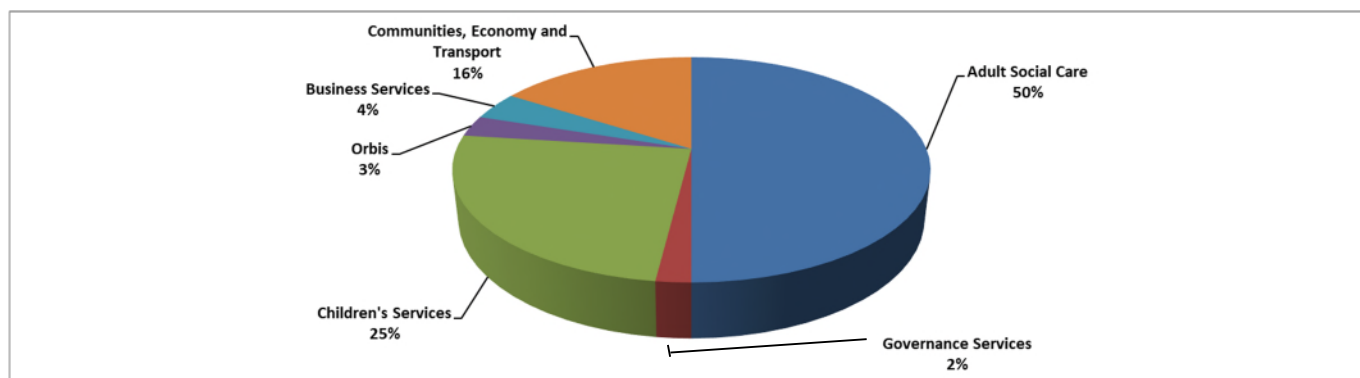
Work will be ongoing to review and update the capital programme, in line with the future service offer and any investment required in support of this, including consideration of basic need and further updates to grants, S106, CIL and capital receipts and to present a rounded picture in terms of the pressures and slippage verses available resource.

In response to the pandemic, the Government has continued to provide funding to Local Authorities. £14.5m was received/accrued in quarter 4 bringing our total for 2020/21 to £99.7m; 63% of which is ringfenced funding aligned to specific outcomes being delivered by departments whilst the remaining £36.6m is general funding which is not ringfenced and allows more flexibility. The £15.1m carry forward of general funding reflects this up-front cashflow; funding flows received are not aligned to spending patterns. It also reflects that meeting the costs of COVID-19 will continue into 2021/22 and beyond.

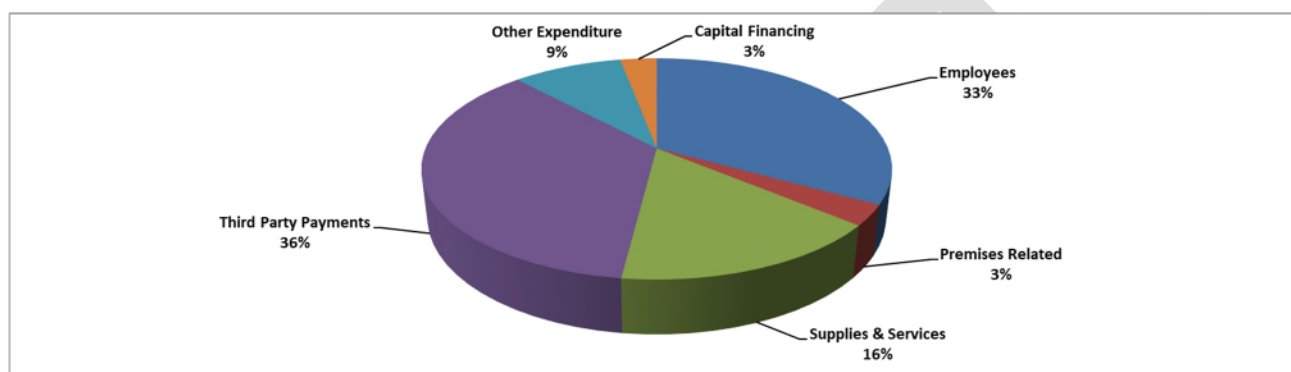
### How much was spent on the revenue account

The Expenditure and Funding Analysis (EFA) on page 52 shows how the Council money is spent and where the money comes from. The Council services expenditure is presented in the chart below. The chart below presents a full break down of how the money was spent:

## Narrative Report



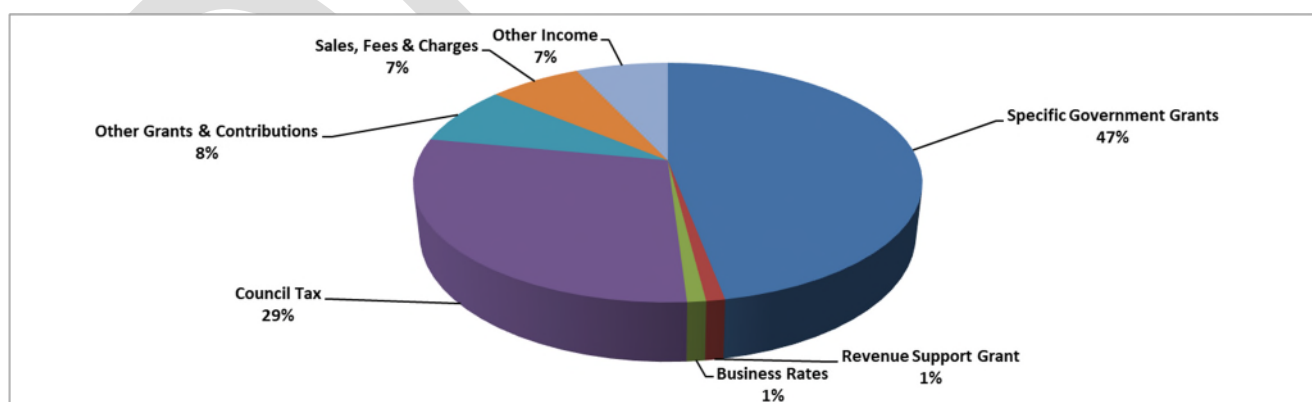
### What the money was spent on



County Council services are staff intensive and employee costs account for 33% of the expenditure. Non-employee expenditure includes costs of premises at 3%, supplies and services at 16% and third party payments at 36%, with other expenditure at 9%. 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 3%.

### Where the money came from

The chart shows that 47% of our income came from Specific Government grants, 29% came from residents through Council Tax, 8% from other grants & contributions, 7% from other income including use of reserves and bank interest. Business Rates consisted of 1%, and 7% of our income came from users of our services, with Revenue Support Grant representing 1% of the Council's Funding.



### 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 was taken by directorates to manage potential variations within their cash limited budgets. The table below shows actual net spending of £402.71m during 2020/21, based on the total cost of providing services including charges for support services, treasury management and use of assets.

2020/21 budget monitoring was split into 'Business as Usual' and 'COVID-19 related' to ensure transparency.

## Narrative Report

The total revenue underspend for 2020/21 is £26.921m. £15.132m relates to COVID-19 general funding which has yet to be spent and will be carried forward to 2021/22 to meet the ongoing costs of COVID-19. More than £99m of COVID-19 funding has been received, the carry forward reflecting the cashflow of when funding was provided and when the costs are incurred. The remaining £11.789m underspend relates to Business as Usual activity and arises primarily from underspending in Adult Social Care (£4m), as a result of the level of client deaths being in excess of normal modelled levels, and in Corporate Budgets (£6.8m), where the £3.9m General Contingency budget was not required to be applied and Treasury Management underspent by £2.7m due to no additional borrowing during the year.

The 2020/21 budget outturn position is exceptional, with neither the underspending on COVID-19 or Business as Usual being able to be relied upon in future years. Until there is a longer term financial settlement for local government beyond the current one-year approach, the medium to long term financial outlook for the Council remains very uncertain.

The Council's general fund balance of £10.0m at the year end plus general contingency of £3.9m is in line with the target minimum level of 2.5% (actual 3.45%) of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and reconciles to the analysis contained in the Expenditure and Funding Analysis (EFA) on page 52. The table below sets out the revenue budget for 2020/21 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate	Actual Outturn	Variation
	£m	£m	£m
Adult Social Care	182.95	178.99	(3.96)
Public Health	-	-	-
Governance Services	6.95	6.89	(0.06)
Children's Services	88.14	88.73	0.59
Orbis	11.76	11.38	(0.38)
Business Services	12.28	12.68	0.40
Communities, Economy and Transport	59.08	57.78	(1.30)
<b>Service Spend (incl. DSG Related)</b>	<b>361.16</b>	<b>356.45</b>	<b>(4.71)</b>
Corporate Budgets	20.80	15.66	(5.14)
Transfers to Reserves	2.51	15.33	12.82
Treasury Management	18.24	15.52	(2.72)
<b>Net Expenditure</b>	<b>402.71</b>	<b>402.96</b>	<b>0.25</b>
<b>Financed from:</b>			
Revenue Support Grant	(3.55)	(3.55)	-
Social Care Grant	(14.63)	(14.63)	-
Business Rate Retention	(12.11)	(12.11)	-
Business Rate Top-up	(62.77)	(62.77)	-
Business Rates Compensation Grants	(5.16)	(5.41)	(0.25)
Business Rate Pool	(1.63)	(1.63)	-
Business Rates adjustments for previous years	(0.35)	(0.35)	-
Council Tax	(300.87)	(300.87)	-
Council Tax adjustments for previous years	(0.88)	(0.88)	-
New Home Bonus Grant	(0.76)	(0.76)	-
	<b>(402.71)</b>	<b>(402.96)</b>	<b>(0.25)</b>
<b>Balances:</b>			
Opening	10.00	10.00	
Added / (withdrawn) during the year	-	-	
Closing	<b>10.00</b>	<b>10.00</b>	

## Narrative Report

### Earmarked Reserves and Provisions

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 and unexpected events. 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 Bulletin 99 - Local Authority Reserves and Balances.

It is the S151 Officer's duty to consider the robustness of the Council's budgets, the adequacy of reserves and the general fund when they are set annually. This consideration is summarised in the annual Robustness Statement which is published as part of RPPR. 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 changes in the level of government financial 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.

Reserves are the only source of financing available to fund risks and one-off pressures over a number of years. Reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is increasingly limited. However, in recognition of the increasingly uncertain financial position and pressures on services, the Council has looked to bolster its reserves where possible and considers them sufficient and its budget robust.

Details of the Council's earmarked reserves can be found on page 59, Note 10 to the Accounting Statements. Current earmarked reserves held at 31 March 2021 totalled £181.2m. Of this, £16.1m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £12.1m relates to future funding for the capital programme and £75.3m 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 insurance liabilities to manage litigation and other corporate risks not otherwise recognised.

The level of the general fund is consistent with the overall financial environment and the key financial risks faced by the Council. This risk assessment is formally carried out at least twice annually and takes account of circumstances at the time.

In calculating the level of provisions, the Council exercises judgement; they are measured at the Council's best estimate of the costs required to settle obligations at the Balance Sheet date. The level of the Council's provisions is set out in Note 23.

### Future Years

The General Fund balance of £10.0m is a minimum general balance which, whilst it remains lower proportionately than a lot of other authorities, is considered adequate on the basis that an in-year budgeted general contingency is also held. Should the General Fund Balance have to be used, the Council would have to consider how this could be topped back up to an adequate level to manage future years' risks.

The general contingency for 2021/22 is £4.0m and will be used in the first instance to cushion the impact of pressures in-year. Any unused balance will be transferred to strategic reserves at the end of the financial year, in line with the approved reserves policy.

Of the £67.5m balance on the Revenue Grants and Contributions Reserve, £30.5m relates to COVID-19 funding. The remaining balances are committed for specific purposes. Within the Financial Management & Transformation Reserves, £19.9m is considered to be available for any unfunded COVID-19 pressures, noting that its use would impact on the Authority's MTFP: firstly the reserve would need to be built up again, thereby adding an additional budget pressure; secondly, if the reserve is not available to support the development and investment in services then this would place additional burdens on the future financial viability of the authority. The Council does not hold large balances for capital receipts or unapplied capital grants, and any balances have a planned use.

## Narrative Report

### The Capital Programme

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. The approved capital budget (gross) at February 2020 for 2020/21 was £100.5m. This was further adjusted to reflect the variation at outturn (March 2021), re-profiling of budgets and approved variations in line with financial regulations and governance (detail of which is shown below).

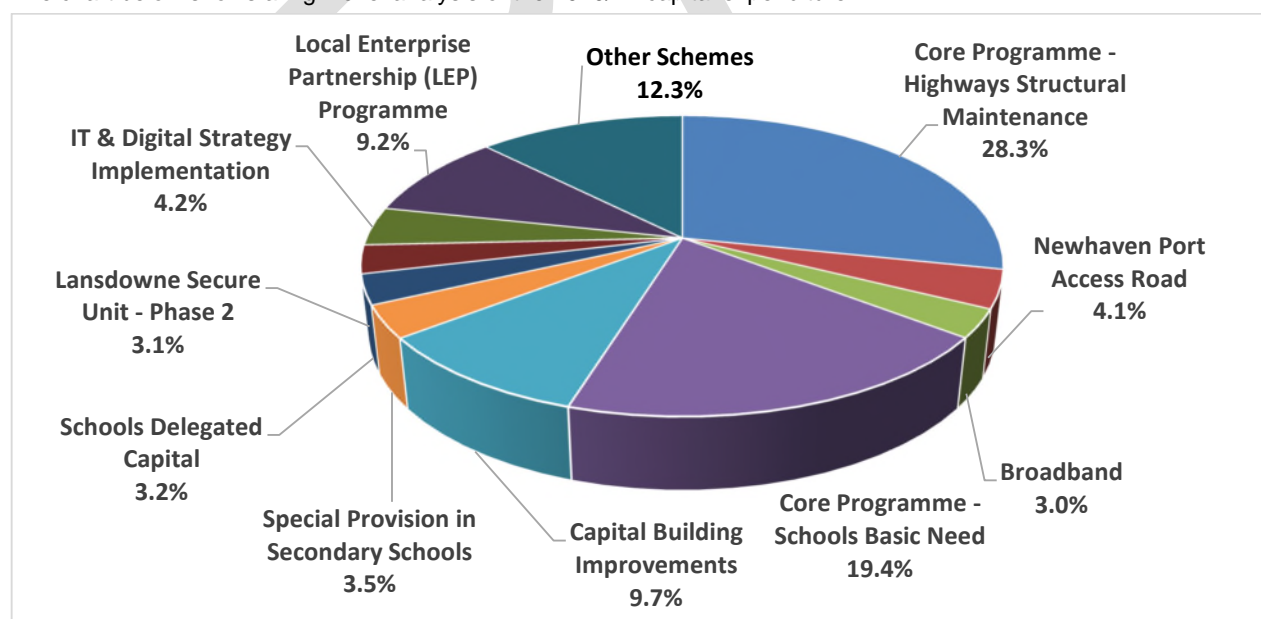
#### Capital Programme gross movements during 2020/21:

	£m
<b>Budget as per February 2020</b>	<b>100.5</b>
Project re-profiling following reviews	(26.8)
Approved Variations	5.0
<b>Budget as per February 2021</b>	<b>78.7</b>
Post budget approved variations	2.6
<b>Revised Budget as per March 2021</b>	<b>81.3</b>

During the financial year the capital programme is regularly reviewed and where necessary projects are re-profiled as part of the ongoing RPPR process. The revised gross budget for the end of March 2021 was £81.3m.

In 2020/21 the County Council spent £72.3m gross of which £19.2m was supported by scheme specific resources, giving a net expenditure of £53.1m. The larger schemes that took place during the year included the structural maintenance of roads throughout the county, delivering school places, capital building improvements, Newhaven Port Access Road and many other improvements to schools, buildings, roads. Of the £9.0m variation to the revised gross budget, £1.3m was COVID-19 related (£2.5m of slippage offset by an estimated £1.2m overspend), £2.0m was slippage of projects where the delivery is outside of the Council's control as they are provided by third parties as part of the Local Enterprise Partnership (LEP) programme, and £2.1 related to Broadband project slippage where delivery is largely outside of the Council's control. There has been smaller scale slippage on a number of other projects, including on Newhaven Port Access and Bexhill Link Road as a result of delays to potential compensation claims. Delays to the IT & Digital Strategy Implementation due to delays to devices being received and at Westfield Land due to an ongoing legal process. These were able to be offset in part by spend in advance on other areas such as Special Provision in Secondary Schools following earlier than anticipated commencement of Phase 2 at Robertsbridge Community College.

The chart below shows a high level analysis of the 2020/21 capital expenditure.





## Narrative Report

As per the approved budget at February 2021, the County Council plans to invest £92.1m in capital projects in 2021/22, funded by:

	£m
Borrowing	32.5
Scheme Specific grants and contributions	24.4
Non-specific grants	20.9
Capital reserves and revenue contributions	5.8
Capital Receipts	6.9
Section 106 / Community Infrastructure Levy Target	1.6
<b>Total resources</b>	<b>92.1</b>

### Financial (non-Covid) Challenges in 2020/21

The County Council plans and monitors its performance, policy and resources through a single process, called Reconciling Policy, Performance and Resources (RPPR). For full details of the County Council's challenges and the financial implications, the attached is a link to the report on the Council's website, which was presented to Council on 11 February 2020:

[Agenda for Full Council on Tuesday, 11th February, 2020, 10.00 am | East Sussex County Council](#)

### Financial (non-Covid) Challenges for 2021/22 and beyond

Looking ahead, the Authority faces unprecedented challenges in managing its budget; not only because of COVID-19, but also with the underlying demographic and economic factors of the county.

Around 4.0% of the population are aged 85+ and ESCC is ranked 1st in England for the highest proportion of population 85+ (ONS estimate 2019). In East Sussex there are 329 Lower Super Output Areas (LSOA), 22 are in the most deprived 10% nationally and 21 are in the least deprived 10%; people that are more deprived may produce higher demand for Council and other public services. Deprived LSOAs are characterised by poorer health and disability, lower skills, educational disadvantage, higher crime and drug misuse.

76.3% of the working age population (age 16-64) was in employment in 2020 (down from 77.0% in 2019), compared to England 75.7% and South East 78.3% (ONS Annual Population Survey).

The level of government funding that the Council will receive between 2022/23 – 2024/25 is yet to be confirmed; Spending Review (SR) 2020 was for a single year, therefore funding will be announced at SR21, the date of which is still to be confirmed, but which could be subject to delay. Additionally, the Fair Funding Review and Business Rate Retention reform have been confirmed as delayed. Government funding is therefore assumed to continue to reduce while in the same period there is considerable uncertainty as to the medium to longer term impact of COVID-19.

### Non Financial Performance

The non-financial performance of the Council is reported quarterly and the year end position for 2020/21 was reported to Cabinet on 29 June 2021. Attached below is a link to the report on the Council's website:

[\(Public Pack\) Agenda Document for Cabinet, 29/06/2021 10:00 \(eastsussex.gov.uk\)](#)

### East Sussex Pension Fund

In line with the accounting standard IAS19, the Council's net liability for future pension payments, as shown in the Balance Sheet, has increased by £142.5m from £416.9m at the start of the year to £559.4m at 31 March 2021. Note 42 to the accounting statement provides detailed information. The resultant impact on the CIES is a net charge of £53.3m to reflect the present value of the defined benefit obligation and a net Actuarial loss on pension assets and liabilities of £89.2m.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2020, the actuary assumed a discount rate of negative 0.4% real (2.3% 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 2021, the actuary has advised that a rate of 0.8% real (2.0% nominal) is appropriate. The change in the real discount rate over the year along with revised financial and demographic assumptions has resulted in an increase in the liabilities measured at today's prices of around £334.9m.
- Asset returns on the Fund in the year to 31 March 2021 were higher than expected for the Council. The increase in the Fund's assets due to investment performance in equity and other markets was estimated to be 22.1%, compared to the expected return on assets at the start of the year of 7.3%, with a total increase of around £245.7m.



## Narrative Report

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 £1,979.7m in respect of employee members, deferred pensioners and pensioners as at 31 March 2021. There is also a liability of approximately £86.7m in respect of LGPS and 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 2020/21, agreed in February 2020, was set against a background of market uncertainty and a prudent approach was taken with all investments. The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the capital programme and revenue budget. As will be clear from the current global events, it is impossible in practical terms to eliminate all credit and market risk. This Council seeks to be as prudent as possible.

This Council has always adopted a prudent approach on its investment strategy and in the last few years, there have been 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 also regularly monitored to ensure that their financial strength and low risk has been maintained.

The average level of funds available for investment purposes during 2020/21 was £241m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The total amount received in short term interest and dividends for the twelve months to 31 March 2021 was £1.74m at an average rate of 0.72%.

At 31 March 2021, the majority of the Council's external debt was held as long-term loans (£233m), and no additional longer-term borrowing was undertaken during 2020/21.

Capital expenditure levels, market conditions and interest rate levels will continue to be monitored in order to minimise borrowing costs over the medium to longer-term and to maintain stability. Given the on-going cuts to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

The Ministry of Housing, Communities and Local Government (MHCLG) requires Councils to set aside 'prudent' provision for the repayment of debt where they have used borrowing arrangements to finance capital expenditure (historic and current) but allows certain flexibility as to how this is calculated.

On 29 April 2020, CIPFA released a Treasury Management & Capital Management update, specifically as a response to COVID-19 and highlighted the areas of focus for practitioners - cashflow being a key area.

The authority manages cashflow daily with a high level forecast out to the 30<sup>th</sup> September 2022. This is reviewed daily from an estimate to actual and updated for all known material items of income and expenditure.

The major change to a normal cashflow cycle during the COVID-19 pandemic included the advance funding of central government grants and the additional emergency funding made available. The increased liquidity reduced the near term cashflow risk and the forecast was updated to reflect any re-profiling of government grant funding.

The authority has a steady debt and investment maturity profile, but when cashflows are forecasted on a downward trend investment notice accounts can be redeemed to support the authority's daily activity. In addition, any 'pinch points' can be funded through short term borrowing in the local authority market, an approved method of borrowing. In the near-term surplus balances are kept liquid to support expenditure and any reduced income profile. This is also undertaken following the fundamental principles of security, liquidity and then yield in this current economic climate.

### The Balance Sheet

Despite the challenges, the Council continues to maintain a strong balance sheet -

At 31 March 2020 £m		At 31 March 2021 £m
1,008,769	Long Term Assets (including Property, Plant & Equipment)	977,221
264,982	Current Assets (including debtors and short term investments)	346,459
(145,380)	Current Liabilities (including creditors and bank overdraft)	(147,884)
(742,757)	Long Term Liabilities	(884,687)
<b>385,614</b>	<b>Net Assets</b>	<b>291,109</b>
<i>Represented by:</i>		
166,913	Usable Reserves	234,847
218,701	Unusable Reserves	56,262
<b>385,614</b>	<b>Total Reserves</b>	<b>291,109</b>

## Narrative Report

The main changes to the balance sheet in 2020/21 are (i) the increase in current assets and corresponding increase in usable reserves due to higher cash balances from a large number of grants paid during 2020/21 that are yet to be applied, and (ii) an increase in long term liabilities and corresponding decrease in unusable reserves due to the increase in the pension liability of £142.5m.

Academy Schools – two schools are expected to convert to Academy status in 2021/22. The net book value of property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. Their net book value at 31 March 2021 is £4.295m.

### 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:

- Narrative Report - 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 2020/21;
- The Statement of Responsibilities which details the responsibilities of the Council and the Chief Finance Officer (S151 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, Grant Thornton 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 2020/21. However, any significant events or developments that occur between 31 March 2021 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 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 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 and mitigate the risk and impact of unplanned events) and other reserves.
  - ~ *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 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 must 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 2020/21, together with assets and liabilities as at 31 March 2021; and
- A glossary to the Statement of Accounts is also included to help to make what is ultimately a 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 has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2020 and applies for accounting periods commencing on or after 1 April 2020.

The key accounting changes principally introduced by the Code in 2020/21 are:

## Narrative Report

- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.
- Amendments to implement and emphasise the application of Amendments to IAS 1 and IAS 8: Definition of Material.
- Reference to arrangements for the application of accounting standards arising as a consequence of the United Kingdom's withdrawal from the European Union.
- Amendments relating to financial instruments.
- Amendment to Accounting and Reporting by Pensions Funds to align specific investment asset line item descriptions in the net asset statements with the Pensions SORP.
- Legislative amendments

Under the Code, the Authority is required to disclose details on the impact of an accounting change required by new accounting standards that have been issued, but not yet adopted, by the Code. The new standards introduced by the Code that will need to be adopted by the Council in 2020/21 are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

### The Council's Stewardship, Responsibilities and Financial Management Policies

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

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; and
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, i.e. the process for being publicly accountable for the collection and application of public money. The responsibilities of the Council and its designated Chief Finance Officer are 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 19 - 27.

Our financial framework relies on the quality of the financial systems of the Council. There is a commitment to continually seek to improve systems to ensure information is available in an accessible and timely manner and that key financial processes are managed efficiently and economically.

### The Audit Opinion

The 2020/21 Audit Opinion and Certificate is available on pages 16 - 18.

## **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 – Section 151 Officer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the Statement of Accounts, which include the accounting statements for East Sussex Pension Fund.

### **The Responsibilities of the Chief Finance Officer – Section 151 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 2021.

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; and
- 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;
- assessed the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future; and
- maintained such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2021.

**Ian Gutsell**

Chief Finance Officer (Section 151 Officer)  
30 September 2021

***Independent Auditor's report to East Sussex County Council***

**TO FOLLOW**

DRAFT

***Independent Auditor's report to East Sussex County Council***

**TO FOLLOW**

DRAFT

***Independent Auditor's report to East Sussex County Council***

**TO FOLLOW**

DRAFT

# Annual Governance Statement for year ended 31 March 2021

## Annual Governance Statement for the year ended 31 March 2021

### 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.eastsussex.gov.uk](http://www.eastsussex.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 2015, 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 of our policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2021 and up to the date of the approval of the statement of accounts.

### 3. Review of effectiveness

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

- the work of Members through the Cabinet, Committees including Governance Committee, Standards Committee, Audit 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 Executive, Monitoring Officer, Chief Finance 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 annual governance report;
- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman, the Care Quality Commission and the Office for Standards in Education

### 4. Key elements of the governance and internal control environments

The key elements that comprise the Council's governance arrangements are set out in the Local Code and they include:

- a Council Plan that sets out our vision for the community and the outcomes we intend to achieve;
- an established medium term planning process including the process for reconciling policy priorities with financial resources, which takes account of performance and the need to improve both customer focus and efficiency;
- a business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the Council's key objectives, as set out in the Council Plan, to officers and Members;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- financial management structures which promote ownership of financial issues within service departments;
- compliance with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Finance Officer;
- 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;



## Annual Governance Statement for year ended 31 March 2021

- 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. The Authority's governance response to the Covid-19 Pandemic

The Council responded positively to the implementation of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, which enable the Council to hold meetings in public by electronic means, in order to operate effectively during the period of the pandemic. The Council agreed to make temporary updates to its Standing Orders, making provision for virtual meetings and associated processes, to be effective for the period during which the regulations apply. The Council also agreed a range of temporary measures to enable the County Council's business to be conducted efficiently throughout the period of disruption due to Covid-19. This included putting in place specific delegations to officers which can be used if necessary, should practical, health or capacity related constraints limit the Council's ability to hold virtual meetings.

A series of training sessions, including one to one meetings, were held to ensure that all councillors were able to join and participate in virtual meetings. Specific training and guidance was been offered to Chairs of Committees and Lead Members in relation to chairing virtual meetings. Attendance at formal meetings was good.

Virtual Meetings took place throughout 2020/21 including the Full Council, Cabinet, Committees, Panels and individual Cabinet decision making meetings. The reporting and monitoring of performance, finance and ongoing updates to the Corporate Strategic Risk Register reflect issues arising from the pandemic.

Members provided feedback on their experiences of virtual meetings and their views on proposals for the conduct of meetings, including ongoing Member support needs. The responses received were considered by the cross-party Member ICT and Development Reference Group which supported the approach being taken.

All county councillors were invited to two Whole Council Forums (July and September) at which officers provided an update in relation to Covid-19 and the implications for the Council. The Forums provided an opportunity for councillors to raise questions and issues in relation to the pandemic which can inform future decisions of the Council.

The Cabinet has considered two reports (which was referred to the Full Council for debate) in relation to the measures taken in response to Covid-19 and on the proposed approach to resetting the Council's activities. The Council is using its existing political and business planning processes to develop its plans. The following principles will guide the planning of Covid-19 recovery for East Sussex County Council services and the Council's wider support for residents and businesses:

- Our usual business planning process (RPPR), led by Cabinet and CMT, was used to develop a short-term recovery plan 2020/21 and medium/long-term full planning from 2021/22
- The Council's Core Offer, Priority Outcomes and subsidiary Delivery Outcomes will be reviewed and revised as needed to ensure they are right for recovery plans – recognising the fundamental changes that have taken place in society and the way it works and building on the positive lessons we have learnt. Some services we set up in response to the pandemic will need to continue into the foreseeable future and the impact of decisions we have taken could have long lasting service and financial consequences (for example in ASC).
- The Council's financial resource allocations for current and future years will be reviewed and revised to take account of changes in availability and priorities
- Learning from what has worked well and what has not during the crisis will be fully considered in recovery planning and long-term planning for services and partnerships

A flexible approach to planning and delivery is required as we move through the pandemic. Our integrated monitoring and risk processes provide a vehicle to allow us to do that. Our plans for future years will also need to take into account the broader context in which we are working: the impact of the pandemic on the national economy and our funding prospects, the changed needs of our residents and businesses and the impact of exiting the EU on both the economy and our services.

In July 2020 the East Sussex Health and Wellbeing Board approved the East Sussex Outbreak Control Plan. Planning to prevent and respond to cases of Covid-19 in our communities requires a whole system and multi-agency approach, including the NHS Test and Trace programme. A wide range of stakeholders contributed and commented on the Plan and will continue to shape its development. The Board approved an updated versions of the Plan in September, December and March and is to consider a further report on the development of the Plan in July 2021.

The Senior Management Group has been meeting regularly (twice a week) in order to review and evaluate the impact of Covid-19 on service provision and resources and consider future actions.

### 6. 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.

**Annual Governance Statement for year ended 31 March 2021**

The Annual Internal Audit Annual Report and Opinion provides an opinion on the adequacy of County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement and this is provided in the Annual Internal Audit Annual Report and Opinion. Based on the internal audit work completed, the Orbis Chief Internal Auditor has provided reasonable assurance that East Sussex County Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2020 to 31 March 2021.

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 and the Chief Finance Officer's Assurance Statement, 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. Each Director has included in their Directorate Assurance Statement confirmation that the actions identified for 2020/21 have been completed or provided an update and explanation regarding progress.

A review of the AGS was undertaken by Internal Audit during 2020/21 and an opinion of Substantial Assurance was given. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. The minor actions agreed for further improvement have been implemented.

The Council Plan identifies a number of areas that have governance implications and these will be monitored through the Council Plan monitoring process. 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.

A report from the Committee on Standards in Public Life included a best practice recommendation: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place. Details of relevant bodies are set out in Annex B.

Councillor Keith Glazier, Leader  
Becky Shaw, Chief Executive  
13 July 2021

## Annual Governance Statement for year ended 31 March 2021

### Annex A

The following actions will be taken to strengthen governance, risk management and internal control environment during the current year. The actions are shown for each department and will be monitored through departmental business plans. Alongside these all departments will contribute to the council's Covid 19 response and recovery plan and consider what actions are required to return to business as usual and the identification of any learning (Ongoing)

#### Business Services (BSD)

- Progress the chosen supplier software through the design and testing phase, prior to implementation in 2022/23, for the Managing Back Office Services (MBOS) programme. The programme seeks to replace the Council's core finance and HR systems with a suite of back office systems that best meet the current and future needs of the Council. (Throughout 2021)
- Implement outcomes from the review of the Orbis partnership, which will result in a reshaped partnership model and strengthened arrangement for delivery of savings. (March 2022)
- Embedding and recruiting the approved increased integrated structure for Pensions Fund and Administration (September 2021)
- Implement new target operating model for the property service. (September 2021)
- Migration of systems and services onto hyper-converged infrastructure to further enhance resilience by moving away from the traditional model of disaster recovery to one of heightened availability. (September 2021)
- Maximise robotic process automation opportunities in consultation with key stakeholders where appropriate to introduce simple but effective validation and control gateways to key processes. (August 2021)
- Implementation of the Procurement modernisation programme to improve governance, reporting and decision making. Key changes will be the provision of a nominated Procurement Business Partner for each directorate, the establishment of a resourcing hub to improve the management of projects, and a revised operating model with proportionate governance, processes, and updated systems. (March 2022)
- Rollout Contract Management training across the Council through a series of e-learning modules to support the contract management framework available on the intranet and dedicated SharePoint site. (November 2021)
- Undertake assessment against the new CIPFA Financial Management Code and, where appropriate, agree actions for areas of improvement (September 2021)

#### Children's Services

- Continue to review, monitor and report on the children and young people's priorities for the East Sussex Health and Care Plan and embed the new Children and Young People's Oversight Board. **March 2022**
- Develop the new Excellence for All strategy 2021-23, which will respond directly to the challenges and opportunities posed by disruptions to learning caused by the pandemic. **September 2021**
- Develop a new SEND strategy incorporating the gaps identified in the JSNA **August 2021**
- Further develop the integrated 0-19 Early Help Service to embed a whole system, whole family approach to support us to create a more sustainable system and to improve outcomes for children, young people and families. **March 2022**

#### Communities, Economy and Transport

- Development of corporate strategy for the digital preservation of modern records - audit and options analysis undertaken (March 2022)
- Review of progress and governance of the highway's re-procurement project (Ongoing until contract award)
- Review of highways cultural compliance actions identified by Internal Audit (March 2022) – all actions complete / on-going annually and awaiting follow-up audit
- Audit of grants and loans governance and process (March 2022)
- Review of our effectiveness as a statutory consultee on planning applications (March 2022)
- Travel Audit Plan Fees – audit to ascertain whether ESCC receive all payments due as part of new development
- Review of the Council's role in relation to Sea Change Sussex

#### Adult Social Care and Health

- Delivery of the ASCH Programme (Covid-19 Recovery Plan) on target for August 2021.
- Developing by December 2021 our East Sussex Health and Social Care Partnership model to respond to the White Paper and the further development of the Sussex Integrated Care System (ICS), with a specific focus on our place based plans for integrated commissioning, provider collaboration and integration, and working in partnership to strengthen community wellbeing.

**Annual Governance Statement for year ended 31 March 2021**

- In the context of the plans to establish ICSs on a legal footing and absorb the existing functions of Clinical Commissioning Groups by April 2022, establish by December 2021 a shared framework for our system financial model and ongoing MTFP at place level within our Sussex ICS. This will align with organisational budget-setting processes for future years and will include appropriate shifts in investment and relevant Discharge to Assess and Better Care Fund targets, as well as any risk share arrangements that may be developed to support new models of care.
- Complete the review of Public Health and by March 2022 establish a delivery plan and governance arrangements to ensure all agreed proposals are delivered.

**Governance Services**

- Ensure the successful election of 50 councillors at the County Council election in May. Target date – May 2021
- Finalise and implement the induction and training programme for new councillors whilst maximising the experience and knowledge of returning councillors, including on decision making, business planning, the Code of Conduct for Councillors, equalities; and belonging to Outside Bodies. Target date – to complete the main induction programme by July 2021 and then ongoing training and development throughout the year.
- Review the arrangements for virtual decision making in light of the lapsing of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and clarification from the High Court. Target date for completion October 2021
- Ensure decision-making arrangements and school admission appeal arrangements are revised to reflect any Regulations published during the year as a result of Coronavirus. Target completion date – ongoing throughout 2021/22
- Complete the business risk assessment of the School Appeals Management System. Target date - August 2021

## Annual Governance Statement for year ended 31 March 2021

### ANNEX B

#### Separate bodies owned or set up by the County Council

A report from the Committee on Standards in Public Life included the following best practice recommendation: *Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies.* Details regarding relevant bodies is set out below:

**TRICS Consortium Ltd** – TRICS is an international system of trip generation analysis that is used in the transport planning industry. TRICS collect data relating to trip rates of different land uses, with members paying to access the database to use the data for a variety of uses.

What the relationship is between the body and the local authority	ESCC is a shareholder in TRICS Consortium Ltd. The Council has a 16.7% share - equal share with the five other county council shareholders
What is the structure and form of the body (e.g. private limited company etc)	TRICS is a local authority trading company. It has a board of directors (one from each of six counties that are shareholders plus a managing director). It is a private company limited by shares.
How the Council oversee its activities and provided assurance on its governance including financial governance	The ESCC nominated company director attends monthly board meetings to oversee the business of the company to ensure it is run to maximise the business for the benefit of ESCC. The ESCC Director shares the annual report with the relevant Head of Service.
What the relationship is between the body and individual councillors and whether councillor's' involvement is likely to constitute a conflict of interest	There is no relationship, aside from the Lead Member for Transport & Environment is updated on the work of TRICS through briefing meetings.
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny committee, and if not, how else scrutiny will happen	The scrutiny of the work undertaken by the Body is through the planning process. The Council's role within the TRICS consortium falls within the remit of the Places Scrutiny Committee.
Designated Officer contact	Alex Jack, Communities, Economy and Transport

**Woodland Enterprise Ltd.** - The principal activity of the company is creating prosperity in woodland and wood using industries through sustainable development. The business works with woodcutters and other local businesses to promote sustainable use of wood.

What the relationship is between the body and the local authority	ESCC is a Member of this company. This is a company without shares but in terms of "influence" ESCC has one seventh (14.3%).
What is the structure and form of the body (e.g. private limited company etc)	The Company is limited by guarantee.
How the Council oversee its activities and provided assurance on its governance including financial governance	ESCC receives copies of Woodland Enterprise Limited's annual accounts. ESCC is required to disclose its interest in Woodland Enterprises in its own statements of accounts. A copy of the Woodland Enterprise Ltd annual accounts are requested each year and are included in the ESCC Statement of Accounts.

**Annual Governance Statement for year ended 31 March 2021**

What the relationship is between the body and individual councillors and whether councillor's' involvement is likely to constitute a conflict of interest	The Council has appointed a councillor to serve as a Director on the Board of Woodland Enterprise Limited (Councillor Kirby-Green). There might be possible conflicts of interest (eg. grant funding from ESCC etc).
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny committee, and if not, how else scrutiny will happen	The Council's role within the Woodland Enterprise Limited consortium falls within the remit of the Place Scrutiny Committee
Designated Officer contact	Andy Fowler, Business Services

**Sea Change Sussex is a trading name of East Sussex Energy Infrastructure & Development Ltd (ESEID Ltd) – This is a not for profit economic development company delivering capital infrastructure schemes in the County**

What the relationship is between the body and the local authority	<p>East Sussex is a member of Sea Change Sussex, with Councillor Bennett sitting on the Board of Directors. The company members do not hold shares, but have a percentage voting right in the company. The County Council alongside Rother District Council and Hastings Borough Council a 19.9% voting right in ESEID Limited company. The University of Brighton have a 30.1% voting right and local businesses the remaining 50%.</p> <p>Sea Change Sussex is a delivery partner developing and managing key economic development and infrastructure schemes in East Sussex. The partner delivers capital infrastructure schemes which unlock housing and employment sites in the county – this includes new site infrastructure (access roads) as well as employment space.</p> <p>These schemes are largely funded by external funding from either the South East Local Enterprise Partnership (SELEP) - Local Growth Fund capital grant programme or the SELEP - Growing Places Fund (GPF) loan programme or the Getting Building Fund (GBF) capital grant programme that Sea Change Sussex has secured, alongside some of their own capital receipts from the sale of commercial properties/land in their portfolio. East Sussex County Council acts as the Local Accountable Body for overseeing the devolution of funds from the SELEP to external partners such as Sea Change Sussex and has contract agreements in place for each scheme awarded.</p>
What is the structure and form of the body (e.g. private limited company etc)	Not-for-profit economic development company limited by guarantee
How the Council oversee its activities and provided assurance on its governance including financial governance	<p>Councillor Bennett is the Council appointed Director of the Sea Change Sussex Board and, supported by senior officers, attends the quarterly Board meetings. These meetings provide quarterly reporting on legal commitments, operations and finance statement and updates on all individual projects.</p> <p>As a scheme promoter of LGF, GBF and GPF funded projects, Sea Change Sussex enters into legal agreements for the County Council to monitor the delivery of this public funding and report back to SELEP. The authority to enter into these agreements is sought from the Lead Member for Strategic Management and Economic Development. Sea Change Sussex are bound by the terms of individual Grant and Loan agreements stipulating the guidelines for which Sea Change must adhere to.</p> <p>East Sussex officers regularly meet with Sea Change Sussex representatives and attend project progress meetings for individual schemes, along with attendance and participation at the SELEP Programme progress meetings.</p>

**Annual Governance Statement for year ended 31 March 2021**

	<p>The Section 151 Officer carries out the stewardship role in terms of monitoring and accounting in respect of the financial case within the overall business case and agreeing to the receipt of the funding.</p> <p>Capital Programme management of projects includes financial management of the public funds, monthly invoicing and spend review with the delivery partner. This information is used to inform quarterly reports to Team East Sussex (TES), and SELEP and within the County Council, quarterly reporting to the Departmental (CET) Capital Board and Corporate Strategic Asset Board.</p> <p>A report is considered by the Lead Member for Strategic Management and Economic Development annually on the year-end financial statement of public funding (e.g. SELEP Funding managed by ESCC (Local Growth Fund grants, Growing Places Fund loans, and more recently Getting Building Fund grant) invested in the delivery of the capital infrastructure delivered by Sea Change Sussex) and the forecast spend for the coming financial year, all of which are compiled with finance colleagues and signed off by S151 officer.</p> <p>Schemes can be subject to review by Internal Audit.</p>
What the relationship is between the body and individual councillors and whether councillor's involvement is likely to constitute a conflict of interest	<p>Councillor Bennett is a member on the Sea Change Sussex Board of directors and attends the quarterly Board meetings.</p> <p>Councillor Bennett regularly attends TES and occasionally attends SELEP Board and SELEP Accountability Board meetings as a substitute for Councillor Keith Glazer. If an agenda item relating to projects delivered by Sea Change Sussex is on the agenda, a declaration of interest is declared and recorded in the minutes.</p>
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny committee, and if not, how else scrutiny will happen	<p>Councillor Keith Glazier sits on both the SELEP Board and SELEP Accountability Board and regularly attends meetings. In his absence, a member of the Cabinet attends meetings.</p> <p>There are scrutiny arrangements in place for all funding decisions taken by the Accountability Board. Under the SELEP Assurance framework, the Places Scrutiny Committee has the power to call in and scrutinise the decisions before they are implemented. Under the SELEP Accountability Board Joint Committee Agreement, each of the six Partner Authorities has the ability to challenge a decision made by the SELEP Accountability Board.</p> <p>Accountability Board decisions may be called-in by members of any Partner Authority in the same way they call-in decisions of their own executive arrangements, call-in may only be made if the decision affects that partner area. The 6 upper tier Authority Areas that form the SELEP are East Sussex, Essex, Kent, Medway, Southend and Thurrock.</p> <p>Furthermore, to facilitate Local Authority scrutiny of SELEP work and decisions, requests to attend Local Authority partner scrutiny committees are welcomed, and attendance prioritised.</p>
Designated Officer contact	Richard Dawson, Communities, Economy and Transport

**South East Local Enterprise Partnership Ltd (SELEP Ltd)** - Local Enterprise Partnerships (LEPs) were set up by Government in 2011 to identify and support local strategic growth priorities, encourage business investment and promote economic development. As one of 38 LEPs across England, the South East LEP is a business-led partnership between business, government, education and the third sector, plus other groups, covering the local authority areas of East Sussex, Essex, Kent, Medway, Southend and Thurrock.

What the relationship is between the body and the local authority	<p>The County Council is a partner authority of SELEP Ltd – one of six county/unitary authorities, as listed above. The Leader of the County Council is a Company Director of SELEP Ltd. There are no shares/shareholders in the company. The County Council has one seat on the Board of Directors of SELEP Ltd, occupied by the Leader of the County Council.</p>
---	---

**Annual Governance Statement for year ended 31 March 2021**

What is the structure and form of the body (e.g. private limited company etc)	SELEP Ltd became a 'company limited by guarantee' in Feb 2020. SELEP Ltd has a Board of 20 Directors (plus an additional 5 co-opted Directors). East Sussex, Essex, Kent, Medway, Southend and Thurrock are members of the company. SELEP Ltd operates a federated model of governance, with four 'federated boards' covering its geography, allowing for decision-making and project prioritisation at a local level. The federated board for East Sussex is 'Team East Sussex' (TES).
How the Council oversee its activities and provided assurance on its governance including financial governance	<p>The SELEP Strategic Board (Board of Directors) meets at least quarterly, so the Leader of the County Council can directly oversee the activities of SELEP Ltd.</p> <p>SELEP Ltd has also established the following groups:</p> <ul style="list-style-type: none"> <li>• Accountability Board – a 'joint committee' made up of SELEP's six county/unitary authority members, to oversee the financial governance of SELEP Ltd, responsible for the sign-off of all funding decisions. The Leader of the County Council is our representative on the SELEP Accountability Board.</li> <li>• Investment Panel – a sub-committee of the Strategic Board to act as an advisory committee on matters pertaining to project prioritisation, recommendations on provisional funding allocations and future priorities. The Leader of the County Council is our representative on the SELEP Investment Panel.</li> <li>• Senior Officer Group – an advisory group made up of a senior officer from each of SELEP's six county/unitary authorities. ESCC's Head of Economic Development, Skills, Culture and Infrastructure is our representative on the SELEP Senior Officer Group.</li> </ul> <p>For projects within our local federated area, the County Council acts as the local accountable body for the defraying of funds (such as the Government's Growing Places Fund, Local Growth Fund or Getting Building Fund) from SELEP Ltd to external partners. A Service Level Agreement (SLA) is in place between the County Council and Essex CC as the accountable body to SELEP Ltd, and the County Council's S151 Officer is required to sign-off on all contract agreements between the County Council and project promoters.</p> <p>All of the governance arrangements for SELEP Ltd are set out in the SELEP Articles of Association, SELEP Framework Agreement and SELEP Local Assurance Framework. ESCC senior officers, including the Chief Finance Officer, collaborated on the development of all of these documents, and they have been approved through our own internal governance procedures (Lead Member SMED and Governance Committee).</p>
What the relationship is between the body and individual councillors and whether councillor's' involvement is likely to constitute a conflict of interest	The Leader of the County Council is a Company Director of SELEP Ltd, and has filed an appropriate declaration with SELEP Ltd in accordance with the SELEP Register of Interests policy. Where the Leader cannot attend a SELEP meeting, a substitute Cabinet Member may attend in their place, subject to full compliance with the same Register of Interests policy (the Lead Member for Economy has also filed an appropriate declaration with SELEP Ltd for such an eventuality). The declaration of a disclosable pecuniary interest does not apply where the interest concerned relates primarily to the general interest of any public sector member in her/his area of geographical responsibility; therefore the involvement of the ESCC Leader on SELEP Ltd is <u>not</u> likely to constitute a conflict of interest.
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny committee, and if not, how else scrutiny will happen	The activities of SELEP Ltd do not fall within the remit of the County Council's audit or scrutiny committee, but SELEP Ltd does have its own scrutiny arrangements for all funding decisions taken by the SELEP Accountability Board, whereby each of the six county/unitary authority members of SELEP Ltd has the ability to challenge a decision made by the Accountability Board, and the scrutiny committees of the six county/unitary authorities have the power to call-in the funding decisions before they are implemented.
Designated Officer contact	Richard Dawson, Communities, Economy and Transport.



# Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Council's raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2019/20			2020/21			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
274,547	(94,282)	180,265	Adult Social Care	332,695	(161,355)	171,340
28,045	(26,832)	1,213	Public Health	27,838	(31,020)	(3,182)
8,721	(896)	7,825	Governance Services	8,348	(654)	7,694
400,936	(276,227)	124,709	Children's Services	451,954	(298,247)	153,707
46,350	(17,035)	29,315	Business Services	47,769	(16,469)	31,300
122,349	(38,194)	84,155	Communities, Economy & Transport	146,909	(44,561)	102,348
15,740	(21,478)	(5,738)	Corporate Expenditure	15,529	(1,598)	13,931
<b>896,688</b>	<b>(474,944)</b>	<b>421,744</b>	<b>Cost of Services</b>	<b>1,031,042</b>	<b>(553,904)</b>	<b>477,138</b>
25,402	-	25,402	Other operating expenditure - Note 11	44,436	-	44,436
37,184	(2,796)	34,388	Financing and investment (income) and expenditure - Note 12	28,544	(2,006)	26,538
-	(436,277)	(436,277)	Taxation and non-specific grant income - Note 13	-	(470,501)	(470,501)
		<b>45,257</b>	<b>Deficit on Provision of Services</b>			<b>77,611</b>
		(7,745)	Surplus on revaluation of non-current assets – Note 25			(72,301)
		(144,523)	Remeasurement of the net defined pension liability – Note 25			89,195
		<b>(152,268)</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>16,894</b>
		<b>(107,011)</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>94,505</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure and mitigate risk and impact of unplanned events) and other 'unusable' reserves. It shows how the movements in year of the reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund balance and Schools balance movements in the year following those adjustments.

2019/20	General Fund Balance	Schools Balance	Earmarked Reserves	Total General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019 - Notes 24 and 25</b>	<b>9,999</b>	<b>14,188</b>	<b>102,431</b>	<b>126,618</b>	<b>3,122</b>	<b>18,223</b>	<b>147,963</b>	<b>130,640</b>	<b>278,603</b>
<b>Movement in Reserves during 2019/20</b>									
Total Comprehensive Income and Expenditure	(45,257)	-	-	(45,257)	-	-	(45,257)	152,268	107,011
Adjustments between accounting basis & funding basis under regulations - Note 7	68,376	-	-	68,376	(78)	(4,091)	64,207	(64,207)	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>23,119</b>	<b>-</b>	<b>-</b>	<b>23,119</b>	<b>(78)</b>	<b>(4,091)</b>	<b>18,950</b>	<b>88,061</b>	<b>107,011</b>
Transfers to / (from) Earmarked Reserves - Note 10	(23,119)	853	22,266	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>-</b>	<b>853</b>	<b>22,266</b>	<b>23,119</b>	<b>(78)</b>	<b>(4,091)</b>	<b>18,950</b>	<b>88,061</b>	<b>107,011</b>
<b>Balance at 31 March 2020 - Notes 24 and 25</b>	<b>9,999</b>	<b>15,041</b>	<b>124,697</b>	<b>149,737</b>	<b>3,044</b>	<b>14,132</b>	<b>166,913</b>	<b>218,701</b>	<b>385,614</b>

**Movement in Reserves Statement**

2020/21	General Fund Balance	Schools Balance	Earmarked Reserves	Total General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2020 - Notes 24 and 25</b>	<b>9,999</b>	<b>15,041</b>	<b>124,697</b>	<b>149,737</b>	<b>3,044</b>	<b>14,132</b>	<b>166,913</b>	<b>218,701</b>	<b>385,614</b>
<b>Movement in Reserves during 2020/21</b>									
Total Comprehensive Income and Expenditure	(77,611)	-	-	(77,611)	-	-	(77,611)	(16,894)	(94,505)
Adjustments between accounting basis & funding basis under regulations - Note 7	139,558	-	-	139,558	2,796	3,191	145,545	(145,545)	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>61,947</b>	<b>-</b>	<b>-</b>	<b>61,947</b>	<b>2,796</b>	<b>3,191</b>	<b>67,934</b>	<b>(162,439)</b>	<b>(94,505)</b>
Transfers to / (from) Earmarked Reserves - Note 10	(61,947)	5,471	56,476	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>-</b>	<b>5,471</b>	<b>56,476</b>	<b>61,947</b>	<b>2,796</b>	<b>3,191</b>	<b>67,934</b>	<b>(162,439)</b>	<b>(94,505)</b>
<b>Balance at 31 March 2021 - Notes 24 and 25</b>	<b>9,999</b>	<b>20,512</b>	<b>181,173</b>	<b>211,684</b>	<b>5,840</b>	<b>17,323</b>	<b>234,847</b>	<b>56,262</b>	<b>291,109</b>

## 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 authority (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 represents those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; 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 2020		31 March 2021	
£000		Note	£000
962,855	Property, Plant & Equipment	14	937,556
652	Heritage Assets	17	654
11,063	Investment Property	15	11,151
4,745	Intangible Assets	16	3,505
24,494	Long Term Investments	18	19,462
4,960	Long Term Debtors	20	4,893
<b>1,008,769</b>	<b>Long Term Assets</b>		<b>977,221</b>
182,024	Short Term Investments	18	223,058
2,624	Assets Held for Sale	19	12,121
9,237	Payments in Advance	20	9,040
22	Inventories		22
52,803	Short Term Debtors	20	56,310
18,272	Cash and Cash Equivalents	21	45,908
<b>264,982</b>	<b>Current Assets</b>		<b>346,459</b>
(26,419)	Income in Advance	22	(25,161)
(2,312)	Short Term Borrowing	18	(4,615)
(8,425)	Bank overdraft and Accrued balance for third parties	21	(6,252)
(5,444)	Provisions	23	(4,565)
(102,780)	Short Term Creditors	22	(107,291)
<b>(145,380)</b>	<b>Current Liabilities</b>		<b>(147,884)</b>
(416,868)	Liabilities related to defined benefit pension schemes	42	(559,382)
(11,364)	Provisions	23	(10,344)
(237,923)	Long Term Borrowing	18	(232,980)
(9,551)	Capital Grants & Contributions Receipts in Advance	35	(15,412)
(67,051)	Other Long Term Liabilities	40	(66,569)
<b>(742,757)</b>	<b>Long Term Liabilities</b>		<b>(884,687)</b>
<b>385,614</b>	<b>Net Assets</b>		<b>291,109</b>
166,913	Usable Reserves	24	234,847
218,701	Unusable Reserves	25	56,262
<b>385,614</b>	<b>Total Reserves</b>		<b>291,109</b>

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2021 and its Comprehensive Income and Expenditure Statement for the year then ended.

**Ian Gutsell**

Chief Finance Officer (Section 151 Officer)

The Governance Committee approved the Statement of Accounts on 30 September 2021

## 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 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.

2019/20		2020/21
£000		£000
45,257	Net deficit on the provision of services	77,611
(123,612)	Adjustments to net deficit on the provision of services for non-cash movements	(207,881)
61,556	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	71,925
(16,799)	Net cash inflow from Operating Activities - Note 26	(58,345)
14,403	Investing Activities - Note 27	25,274
9,958	Financing Activities - Note 28	3,262
<b>7,562</b>	<b>Net (increase) / decrease in net cash and cash equivalents - Note 21</b>	<b>(29,809)</b>
(17,409)	Net cash and cash equivalents at the beginning of the reporting period - Note 21	(9,847)
<b>(9,847)</b>	<b>Net cash and cash equivalents at the end of the reporting period - Note 21</b>	<b>(39,656)</b>

# Notes to the Accounting Statements

## 1. Authorisation of the Statement of Accounts

Authorisation of the Statement of Accounts - These accounts were authorised for issue by Ian Gutsell, Chief Finance Officer (Section 151 Officer), and the Statement of Accounts (approved on 30 September 2021) is published **with an audit opinion**.

## 2. Accounting Policies

### i. General

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require them to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts are prepared on a going concern basis and adopt the accounting convention of principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. They are prepared with the overriding requirement that they give a true and fair view of the financial position, performance and cash flows of the Council. Information is presented in a manner that provides relevant, reliable, comparable and understandable information.

The Council uses rounding to the nearest £000 in presenting amounts in its financial statements and also has abbreviated £million to £m.

### ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- 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; and
- 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

Revenue is recognised in accordance with IFRS 15 - Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). Which of the two standards is applicable depends on determining whether the transaction is an exchange (IFRS 15) or non-exchange transaction (IPSAS 23). With non-exchange transactions there is no, or only nominal, consideration in return. The obligating extent is often determined by statutory prescription (e.g. council tax, VAT or a fine for breach of law) or may be a donation or bequest. For exchange transactions, assets or services and liabilities of approximately equal value are exchanged (e.g. fees and charges for services and the sale of goods provided). There is a contract which creates both right and obligations. Under IFRS 15 the performance obligations in the contract have to be measured and the transaction price allocated to these obligations. Revenue is recognised when the performance obligations are satisfied.

### 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.

## Notes to the Accounting Statements

### 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, recognition for additional responsibility 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

## Notes to the Accounting Statements

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 General 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, administered by the NHS Business Service Authority.

The 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.

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;
- unlisted 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;



## Notes to the Accounting Statements

- 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 assessing liabilities for retirement benefits at 31 March 2021, the actuary has advised a discount rate of 2.0%, derived so that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows. In assessing liabilities for retirement benefits at 31 March 2020, the actuary advised that a rate of 2.3% is appropriate.

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 approved and 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.

## Notes to the Accounting Statements

- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General 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 General 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 General 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

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where loans are made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) 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 is credited to the Financing and Investment Income and Expenditure line in the CIES 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 provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES 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.

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 CIES.

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- **Level 3 inputs** – unobservable inputs for the asset.

## Notes to the Accounting Statements

For pooled investment funds (i.e. money market fund, collective investment scheme as defined in section 235 (1) of the Financial Services and Markets Act 2000, investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority schemes)) regulations allow a statutory override (for a period of 5 years from 1/4/18) any unrealised gains or losses can be transferred via the Movement in Reserves Statement to a Pooled Investment Funds Adjustment Account in the Balance Sheet.

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

### Expected Credit Losses

The Council recognises expected credit losses (impairments) on all of its financial assets held at amortised cost or FVOCI either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. The expected credit loss model applies to financial assets measured at amortised cost and FVOCI, trade receivables, lease debtors, third party loans and financial guarantees.

A simplified approach is applied to trade receivables and lease debtors whereby consideration of changes in credit risk since initial recognition are not required and losses are automatically recognised on a lifetime basis. A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.

Loans have been grouped into three types for assessing loss allowances:

**Group 1** – loans made to individual organisations. Loss allowances for these loans can be assessed on an individual basis.

**Group 2** – loans supported by government funding. As the loan repayments are recycled and the contract allows for a level of default then no additional impairment loss is required.

**Group 3** - car loans to employees. Loss allowances are based on a collective assessment.

Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES. For assets carried at amortised cost, the credit entry is made against the carrying amount in the Balance Sheet. For assets carried at FVOCI, the credit entry is recognised in Other Comprehensive Income against the Financial Instruments Revaluation Reserve. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

Impairment losses are not applicable to FVPL assets as the future contractual cash flows are of lesser significance and instead current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value, including those relating to credit risk, impacting on the carrying amount and being posted to the Surplus or Deficit on the Provision of Services as they arise. Impairment losses on loans supporting capital purposes, lease debtors and share capital are not a proper charge to the General Fund balance and any gains or losses can be reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

### 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.

## Notes to the Accounting Statements

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.

### Community Infrastructure Levy (CIL)

CIL is a planning charge on developments used to fund a wide range of infrastructure that is needed because of the development. The Charging Authorities (District & Borough Councils) are required to produce a CIL Charging Schedule, which sets out the rates of CIL to be charged on development. The Council can then approach the Charging Authority to drawdown some or all of the CIL to fund infrastructure projects. The CIL is recognised in the Comprehensive Income and Expenditure Statement in accordance with the grants and contributions policy above.

### 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 up to 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

An assessment of the Council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors. 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 fair value through profit and loss or at amortised 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, highest and best use, 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

## Notes to the Accounting Statements

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. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation;
- its expenses, including its share of any expenses incurred jointly.

### 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 General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

#### The Council as Lessor

Finance Leases - Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the

## Notes to the Accounting Statements

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 General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General 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 General 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

Following changes to the 2016/17 Code of Practice on Local Authority Accounting in the UK, support service costs are no longer apportioned across service segments but are reported as a single segment so that they are based on the way in which services are operated and managed internally. For the Council this segment is the Business Services department.

### xxi. Property, Plant and Equipment and Assets Held for Sale

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.

#### 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.

## Notes to the Accounting Statements

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:

- operational land, buildings and plant – current 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 current value;
- infrastructure, community assets and assets under construction – at depreciated historical cost;
- surplus assets – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 three 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

## Notes to the Accounting Statements

componentised. Component assets could include building structure, roof, heating, electrical, lifts and external works. The expected useful economic lives of components are shown in the depreciation section below.

- 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;
- 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;
- 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 (with the exceptions shown in the table below) and calculated on a straight-line basis over the expected life of the asset, on the difference between the net book value and any estimated residual value. The depreciation charge is calculated on an asset's opening balance and therefore the first charge is in the year after the expenditure is initially incurred.

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, buildings structure, roof and external works	Individually assessed by valuers, usually up to 60 years
Heating and lighting components	Individually assessed by valuers, usually up to 25 years
Lifts	Individually assessed by valuers, usually up to 15 years
Vehicles	Individually assessed on acquisition, usually up to 10 years
Information Technology	Individually assessed on acquisition, usually up to 10 years
Other plant, furniture and equipment	Individually assessed on acquisition, usually up to 20 years
Infrastructure	New roads 40 years; Highways component assets between 10 & 40 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. Held for sale assets are measured at highest and best use. 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



## Notes to the Accounting Statements

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.

### Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Trust / Foundation Schools

Schools Non-Current (fixed) Assets are recognised in the Balance Sheet where the Council directly owns the assets or where the School/Governing body own the assets or have had rights to use the assets transferred to them. Community Schools are owned by the Council and are, therefore, recognised on the Balance Sheet.

Of the Council's Voluntary Aided and Controlled schools, the majority are controlled by the respective Diocese with no formal rights to use the assets passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

There are currently twenty Voluntary Controlled schools under the Council's ownership which are recognised on the Balance Sheet. Where the ownership of Trust/Foundation Schools lies with a charitable Trust, the school is not recognised on the Council's Balance Sheet. Where the ownership lies with the school/Governing Body the school is recognised on the Council's Balance sheet.

All other income, expenditure, assets, liabilities, reserves and cash flows of maintained schools are recognised in the Council's accounts.

### 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;

## Notes to the Accounting Statements

- finance cost – an interest charge (based on Internal Rate of Return of 9.80% for Peacehaven Schools and 5.97% 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

The Waste and Emissions Trading Act 2003 placed a duty on waste disposal authorities in the UK to reduce the amount of biodegradable municipal waste disposed to landfill. It provided the legal framework for the Landfill Allowances Trading Scheme (LATS), which applied to waste disposal authorities in England from 2005/06 to 2012/13.

#### Closed Landfill Sites

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

#### Contingent Liabilities

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

#### Contingent Assets

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

## Notes to the Accounting Statements

### 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 (Refcus)

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.

Expenditure on academy or voluntary aided schools' assets, i.e. properties not owned by the Council, is treated as Refcus. In addition, the Government may direct the Council to treat as capital expenditure items, which would normally be considered as revenue expenditure. These would not result in an asset or an increase to the value of existing assets and are therefore also treated as Refcus.

### 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. 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 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 General Fund through the Movement in Reserve Statement.

### xxviii. Carbon Reduction Commitment (CRC)

The government closed the CRC Energy Efficiency Scheme following the 2018/19 compliance year, to be replaced by increases in the Climate Change levy. The CRC scheme applied to large energy users in the public and private sectors. Organisations that met the qualification criteria were required to participate and buy allowances for every tonne of carbon emitted. The Council were below the threshold.

### xxix. 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.

### xxx. 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

## Notes to the Accounting Statements

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 the Council 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's general policies on impairments.

### xxxi. Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets, assets held for sale and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a. in the principal market for the asset or liability, or
- b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses External Valuers to measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## Notes to the Accounting Statements

When measuring the fair value of a non-financial asset, the Council's external Valuers take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Valuers uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

### 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 2021/22 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2021. The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The Code does not anticipate that the above amendments will have a material impact on the information provided in local authority financial statements i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services. The Code requires implementation from 1 April 2021 and there is therefore no impact on the 2020/21 Statement of Accounts.

The implementation of IFRS 16 - Leases was due in 2021/22 (effective date 1 January 2022) but has been deferred until 2022/23. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is less than one year or the underlying asset has a low value. Transition work is underway but currently the impact of IFRS 16 cannot be reasonably estimated.

### 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:

- Financial Pressures - the Council anticipates that the pressures on public expenditure will continue to be severe. These pressures will be mitigated by further service area and corporate savings, and a limited use of reserves. An assessment of the ongoing pressures and means of mitigation has been made by way of the Council's Medium Term Financial Planning process which has assessed the period to 31 March 2024. As a consequence, the Council is of the view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.
- Accounting for Schools – the Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body. The Council has completed a school by school assessment across the different types of schools it controls within the County. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. 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 6 types of schools within the County:

## Notes to the Accounting Statements

- Community schools
- Special 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. Legal ownership of twenty seven VC school land and buildings rests with a charity, normally a religious body.

Foundation Trust, Voluntary Aided, and Academy schools' staffs 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.

For VA schools, legal ownership of the VA school land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.

Foundation and Foundation Trust schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, the school Governing Body has legal ownership of the land and buildings and thus are included on the Council's Balance Sheet. For the remaining Foundation Trust School, a separate Trust owns the land and buildings so these assets are not included on the Council's Balance Sheet.

Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and are not included on the Council's Balance Sheet. When a school held on the Council's Balance Sheet transfers to Academy status the Council treats this as an asset disposal for nil consideration. The disposal is completed on the date that the school converts to Academy status.

The table below illustrates the number and type of schools within the County at March 2021:

Type of School	Primary	Secondary	Special	All Through	Total
Community	44	7	1	-	52
Voluntary Controlled	44	-	-	-	44
Voluntary Aided	21	1	-	-	22
Foundation / Trust	2	1	-	-	3
Academy	37	14	10	3	64
<b>Total</b>	<b>148</b>	<b>23</b>	<b>11</b>	<b>3</b>	<b>185</b>

## Notes to the Accounting Statements

### 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 2021 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
<b>Property Plant and Equipment</b>	<p>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.</p> <p>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.</p> <p>The Council operates a policy of revaluing its Property, Plant, and Equipment on a rolling three year basis, with the aim of revaluing all of its assets within this period. Indexation may be applied to those assets not valued in the year if the carrying value is calculated as materially different to the fair value at the Balance Sheet date.</p>	<p>The total depreciation and amortisation charged in 2020/21 is £53.0m and the net book value of property, plant and equipment at 31 March 2021 is £937.6m.</p> <p>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 £7.9m for every one year that useful lives had to be reduced.</p>
	<p>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.</p>	<p>The Council carries out an annual impairment review of its asset base, which takes into account such factors as the current economic climate. There were no adjustments due to asset impairment made in 2020/21 however the level of revaluation decreases charged in 2020/21 to the Surplus on Provision of Services is £59.3m and £59.2m to the Revaluation Reserve.</p>

## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Fair Value estimations</b>	<p>When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques:</p> <ul style="list-style-type: none"> <li>For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;</li> <li>For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.</li> </ul> <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs RICS qualified valuers (Bruton Knowles) to identify the most appropriate valuation techniques to determine fair value. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with property services, and the accounts team on a regular basis regarding all valuation matters.</p>	<p>The Council uses External valuer valuations models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets</p> <p>Information about the valuation techniques and inputs used in determining the fair value of these assets is set out in Notes 2, 14 and 15.</p> <p>Investment Properties are valued using comparable house prices, land values, rent/yield basis or deferred market value. A 1% reduction in market rents or house prices and land values would reduce the Investment Property valuations by £0.1m or a 1% yield increase would reduce the valuations by £0.3m. A 10% reduction in house prices and land values would reduce them by £1.1m.</p> <p>Surplus Properties are valued using comparable land values, residual site values and rent/yield basis. A 1% reduction in land values would reduce the surplus property valuations by £0.1m. A 10% reduction would reduce them by £1.2m.</p>
<b>Pension Liability</b>	<p>The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>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.</p>	<p>The value of the Pension Liability is calculated by a qualified Actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund.</p> <p>During 2020/21, the Council's actuary advised that the net pension's liability has increased from £416.9m at the start of the year to £559.4m at 31 March 2021. Note 42 to the Accounting Statements provide detailed information.</p> <p>Details of the sensitivity analysis of the actuarial assumptions can be found in Note 42 on pages 96-100.</p> <p>The Council included the estimated impact of the McCloud judgement in the 2019/20 accounts as an IAS 19 liability and have done the same for 2020/21. However until the new legislation is agreed, the impact is only estimated and therefore there could be a significant risk of material adjustment to the carrying amount of the liability.</p>



## 6. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by adjustment that are made in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's service departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20	As Reported for Resource Management	Adjustment to arrive at the net amount chargeable to General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis  (Note 7)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Adult Social Care	171,544	(257)	171,287	8,978	180,265
Public Health	-	970	970	243	1,213
Governance Services	7,334	(1)	7,333	492	7,825
Children's Services	83,116	1,093	84,209	40,500	124,709
Business Services	23,114	(3,192)	19,922	9,393	29,315
Communities, Economy & Transport	58,828	(10,235)	48,593	35,562	84,155
<b>Total</b>	<b>343,936</b>	<b>(11,622)</b>	<b>332,314</b>	<b>95,168</b>	<b>427,482</b>
Corporate Expenditure	(9,696)	-	(9,696)	3,958	(5,738)
<b>Net Cost of Services</b>	<b>334,240</b>	<b>(11,622)</b>	<b>322,618</b>	<b>99,126</b>	<b>421,744</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>					
Other Corporate Expenditure	42,334	(11,497)	30,837	28,953	59,790
Financing	(376,574)	-	(376,574)	(59,703)	(436,277)
<b>Total</b>	<b>(334,240)</b>	<b>(11,497)</b>	<b>(345,737)</b>	<b>(30,750)</b>	<b>(376,487)</b>
<b>Deficit for the Year</b>	<b>-</b>	<b>(23,119)</b>	<b>(23,119)</b>	<b>68,376</b>	<b>45,257</b>
 <b>General Fund Balance at 1 April 2019</b>			<b>(9,999)</b>		
Less: Deficit for the Year			(23,119)		
Add: Transfer from Reserves			23,119		
<b>General Fund Balance at 31 March 2020</b>			<b>(9,999)</b>		

2020/21	As Reported for Resource Management	Adjustment to arrive at the net amount chargeable to General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis  (Note 7)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Adult Social Care	178,993	(18,704)	160,289	11,051	171,340
Public Health	-	(3,576)	(3,576)	394	(3,182)
Governance Services	6,888	(2)	6,886	808	7,694
Children's Services	88,727	(13,428)	75,299	78,408	153,707
Business Services	24,065	(3,434)	20,631	10,669	31,300
Communities, Economy & Transport	57,781	(6,858)	50,923	51,425	102,348
<b>Total</b>	<b>356,454</b>	<b>(46,002)</b>	<b>310,452</b>	<b>152,755</b>	<b>463,207</b>
Corporate Expenditure	33,551	(24,799)	8,752	5,179	13,931
<b>Net Cost of Services</b>	<b>390,005</b>	<b>(70,801)</b>	<b>319,204</b>	<b>157,934</b>	<b>477,138</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>					
Other Corporate Expenditure	20,339	8,854	29,193	41,781	70,974
Financing	(410,344)	-	(410,344)	(60,157)	(470,501)
<b>Total</b>	<b>(390,005)</b>	<b>8,854</b>	<b>(381,151)</b>	<b>(18,376)</b>	<b>(399,527)</b>
<b>Deficit for the Year</b>	<b>-</b>	<b>(61,947)</b>	<b>(61,947)</b>	<b>139,558</b>	<b>77,611</b>
 <b>General Fund Balance at 1 April 2020</b>			<b>(9,999)</b>		
Add: Surplus for the Year			(61,947)		
Less: Transfer to Reserves			61,947		
<b>General Fund Balance at 31 March 2021</b>			<b>(9,999)</b>		

**(a) Adjustments between Funding and Accounting Basis**

Adjustments from General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
<b>2020/21</b>				
Adult Social Care	2,182	8,600	269	11,051
Public Health	-	394	-	394
Governance Services	-	787	21	808
Children's Services	57,171	20,573	664	78,408
Business Services	7,062	3,500	107	10,669
Communities, Economy & Transport	48,504	2,840	81	51,425
<b>Total</b>	<b>114,919</b>	<b>36,694</b>	<b>1,142</b>	<b>152,755</b>
Corporate Expenditure	-	5,179	-	5,179
<b>Net Cost of Services</b>	<b>114,919</b>	<b>41,873</b>	<b>1,142</b>	<b>157,934</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(38,671)</b>	<b>11,445</b>	<b>8,850</b>	<b>(18,376)</b>
<b>Difference between General Fund deficit and CIES deficit in provision of services</b>	<b>76,248</b>	<b>53,318</b>	<b>9,992</b>	<b>139,558</b>

Adjustments from General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
<b>2019/20</b>				
Adult Social Care	3,449	5,510	19	8,978
Public Health	-	243	-	243
Governance Services	-	491	1	492
Children's Services	27,589	12,940	(29)	40,500
Business Services	7,199	2,191	3	9,393
Communities, Economy & Transport	33,769	1,787	6	35,562
<b>Total</b>	<b>72,006</b>	<b>23,162</b>	<b>-</b>	<b>95,168</b>
Corporate Expenditure	-	3,958	-	3,958
<b>Net Cost of Services</b>	<b>72,006</b>	<b>27,120</b>	<b>-</b>	<b>99,126</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(42,357)</b>	<b>12,859</b>	<b>(1,252)</b>	<b>(30,750)</b>
<b>Difference between General Fund deficit and CIES deficit in provision of services</b>	<b>29,649</b>	<b>39,979</b>	<b>(1,252)</b>	<b>68,376</b>

**Adjustments for Capital Purposes**

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Net Change for the Pensions Adjustments**

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income. For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

**Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For financing and investment income and expenditure the Other Differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts. The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

**(b) Income received on a segmental basis is analysed below:**

	2019/20	2020/21
	£000	£000
Adult Social Care	94,282	161,355
Public Health	26,832	31,020
Governance Services	896	654
Children's Services	276,227	298,247
Business Services	17,035	16,469
Communities, Economy & Transport	38,194	44,561
Corporate Expenditure	21,478	1,598
<b>Total Income analysed on a segmental basis</b>	<b>474,944</b>	<b>553,904</b>

**(c) The subjective nature of expenditure and income is analysed below:**

	2019/20	2020/21
	£000	£000
<b>Expenditure</b>		
Employee benefits expenses	348,510	371,733
Other service expenses	502,174	568,377
Depreciation, amortisation, impairment	65,626	102,498
Interest payments	17,914	17,246
Precepts and levies	569	583
Loss on the disposal of assets	24,804	43,852
<b>Total Expenditure</b>	<b>959,597</b>	<b>1,104,289</b>
<b>Income</b>		
Fees, charges and other service income	(74,092)	(67,639)
Interest and investment income	(2,415)	(1,714)
Income from council tax & non domestic rates	(368,199)	(372,631)
Government grants and contributions	(469,634)	(584,694)
<b>Total Income</b>	<b>(914,340)</b>	<b>(1,026,678)</b>
<b>Deficit on the Provision of Services</b>	<b>45,257</b>	<b>77,611</b>

**IFRS 15 (Revenue from Contracts with Customers)**

Of the £67.6m total of income received from fees, charges and other service income listed above for 2020/21, £62.6m of this balance would be accounted for under IFRS 15 and £5.0m would have been outside the scope of this reporting standard.

**7. 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 arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

**General Fund Balance**

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

**Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

**Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2020/21	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>			
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pensions Costs transferred to / (from) the Pensions Reserve	53,319	-	-
Financial Instruments transferred to the Financial Instruments Adjustment Account	(190)	-	-
Financial Instruments transferred to the Pooled Investment Funds Adjustment Account	32	-	-
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	8,972	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	1,143	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	92,489	-	3,191
<b>Total Adjustments to Revenue Resources</b>	<b>155,765</b>	<b>-</b>	<b>3,191</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,796)	2,796	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(7,004)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(6,407)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(16,207)</b>	<b>2,796</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Adjustments</b>	<b>139,558</b>	<b>2,796</b>	<b>3,191</b>

2019/20			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>			
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pensions Costs transferred to / (from) the Pensions Reserve	39,979	-	-
Financial Instruments transferred to the Financial Instruments Adjustment Account	(190)		
Financial Instruments transferred to the Pooled Investment Funds Adjustment Account	167		
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	(1,191)	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	-	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	47,780	-	(4,091)
<b>Total Adjustments to Revenue Resources</b>	<b>86,545</b>	<b>-</b>	<b>(4,091)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,044)	3,044	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(10,507)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(4,618)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(18,169)</b>	<b>3,044</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(3,122)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(3,122)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>68,376</b>	<b>(78)</b>	<b>(4,091)</b>

**8. Material items of income and expenses**

The Council has disposed of the following property, plant and equipment from its Balance Sheet as the schools obtained academy status during 2020/21. This is included within the total net losses on disposals of non-current assets of £43.852m (see Note 11). The assets were transferred for no consideration and the amount is recognised as losses on disposal.

School	Type of School	£000
The Causeway	Secondary	22,863
Ropemakers Academy	Special	15,302
<b>Total</b>		<b>38,165</b>

**9. Events after the Balance Sheet date**

The financial statements have not been adjusted for the following events that took place after 31 March 2021 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**

Two schools are expected to convert to Academy status in 2021/22. The net book value (NBV) of the 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 2021 is shown in the table below.

School	Type of School	Date of Conversion	NBV £000
Stafford Junior	Primary	September 2021	2,405
Roseland Infants	Primary	September 2021	1,890

**Countryside Management**

In 2021/22 the ownership of the Seven Sisters Country Park will transfer to the South Downs National Park Authority. In addition, Ditchling Common Country Park will be leased to the Sussex Wildlife Trust, ownership of the Ouse Estuary Nature Reserve transferred to Newhaven Town Council and Riverside Park leased to Newhaven Town Council. The Seven Sisters Country Park and Ouse Estuary Nature Reserve are classed as community land assets and valued at their existing use value. The net book values are £0.68m and £0.10m respectively.

**Authorised for Issue**

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 23 July 2021. 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 2021, the figures in the accounting statements have been adjusted in all material respects to reflect the impact of this information.

**10. Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the general fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2020/21.

	Balance at 1 April 2019	Transfers In 2019/20	Transfers Out 2019/20	Balance at 31 March 2020	Transfers In 2020/21	Transfers Out 2020/21	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
<b>Strategic Reserves</b>							
Priority Outcomes & Transformation	8,214	-	(1,041)	7,173	852	-	8,025
Financial Management	32,381	2,620	-	35,001	15,114	-	50,115
<b>Service Reserves</b>							
Capital Programme	10,510	-	(1,176)	9,334	3,083	-	12,417
Waste	12,843	1,770	-	14,613	1,500	-	16,113
Insurance	4,781	1,682	-	6,463	937	-	7,400
<b>Other Reserves</b>							
Public Health	4,996	-	(970)	4,026	1,708	-	5,734
Held on behalf of others	4,952	977	-	5,929	114	-	6,043
<b>Total</b>	<b>78,677</b>	<b>7,049</b>	<b>(3,187)</b>	<b>82,539</b>	<b>23,308</b>	<b>-</b>	<b>105,847</b>
<b>Revenue Grants and Contributions Reserve</b>							
Services	20,506	-	(826)	19,680	20,988	-	40,668
Dedicated Schools Grant	3,248	2,933	-	6,181	5,954	-	12,135
Business Rates/Council Tax	-	-	-	-	7,385	-	7,385
COVID-19	-	16,297	-	16,297	-	(1,159)	15,138
<b>Total</b>	<b>23,754</b>	<b>19,230</b>	<b>(826)</b>	<b>42,158</b>	<b>34,327</b>	<b>(1,159)</b>	<b>75,326</b>
<b>Total</b>	<b>102,431</b>	<b>26,279</b>	<b>(4,013)</b>	<b>124,697</b>	<b>57,635</b>	<b>(1,159)</b>	<b>181,173</b>

**Types of Reserve**

Priority Outcomes and Transformation	<p>Priority outcomes and transformation reserve: to fund the specified initiatives to change, protect and improve Council services, with particular emphasis on:</p> <ul style="list-style-type: none"> <li>Invest-to-save</li> <li>Seed funding for innovation (notably digital) and developments contributing to the County Council's priorities</li> <li>Investment in the redesign of the way services are delivered.</li> </ul>
Financial Management	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.
Capital Programme	To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.
Waste	To smooth the large year-on-year budget increases that will be needed to finance the Waste PFI project over the whole life of the service.
Insurance	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.
Public Health	The Public Health Reserve represents income from Government received which have no conditions attached, and set aside for the health and wellbeing of the local communities under the Government's healthcare.
Held on behalf of others	Represents money that is held on behalf of others or statutorily ring-fenced.
Revenue Grants and Contributions	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 36.

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

	Balance at 1 April 2019	Transfers In 2019/20	Transfers Out 2019/20	Balance at 31 March 2020	Transfers In 2020/21	Transfers Out 2020/21	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
<b>Balances held by schools</b>	<b>14,188</b>	<b>2,563</b>	<b>(1,710)</b>	<b>15,041</b>	<b>5,471</b>	<b>-</b>	<b>20,512</b>

**11. Other Operating Expenditure**

	2019/20 £000	2020/21 £000
Levies		
▪ Ashdown Forest Conservators	30	-
▪ Sussex Inshore Fisheries & Conservation Authority	414	423
▪ Environment Agency - Flood & Coastal Erosion	154	161
Loss on the disposal of non-current assets (net of receipts)	24,804	43,852
<b>Total</b>	<b>25,402</b>	<b>44,436</b>

**Note** - The 2020/21 loss on the disposal of non-current assets figure of £43.9m (shown net of £2.8m capital receipts) includes the removal of two schools from the Balance Sheet, that have attained Academy status at a value of £38.2m (details are included in Note 8). The comparative figures for 2019/20 are £24.8m loss (shown net of £3.0m receipts) and two schools with a value of £20.5m.

**12. Financing and Investment Income and Expenditure**

	2019/20 £000	2020/21 £000
Interest payable on debt and finance leases	17,676	17,137
Net interest on pension assets and liabilities	12,859	11,413
Impairment losses/(reversals)	10	(51)
Fair Value movement of Pooled Funds	167	32
Premium on loan repayment	-	-
Soft Loan interest	(3)	(3)
Interest receivable	(2,563)	(1,852)
Decrease in fair value of Investment Properties	6,476	17
Net income from Investment Properties	(196)	(138)
Surplus on Trading Undertakings	(38)	(17)
<b>Total</b>	<b>34,388</b>	<b>26,538</b>

**Note:** The Council has trading units where the service manager is required to operate in a commercial environment and balance the budget by generating income from other parts of the Council or other organisations. These services include catering, transport and services under the Local Authorities (Goods and Services) 1970 Act (e.g. School Library Service, Parking, Legal, Street Lighting and some Financial Services). Some areas are an integral part of one of the Council's services to the public whilst others are support services to the Council. The scale of these operations is small in relation to the Council's total expenditure. Music Service provision is now delivered by the Brighton Dome and Brighton Festival under a concession contract.

**13. Taxation and Non Specific Grant Income**

	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
Revenue Support Grant (RSG)	-	3,548
Social Care Grant	-	14,631
Business Rates	84,752	82,266
Business Rates Relief Funding	-	6,698
Local Income Tax Guarantee Funding	-	687
Council Tax	287,676	300,874
Council Tax – prior years surplus	3,008	879
New Home Bonus Grant	886	761
Business Rates Levy	252	-
<b>Total</b>	<b>376,574</b>	<b>410,344</b>
Share of Collection Fund Surplus / (Deficit)	1,191	(8,972)
Capital Grants and Contributions	58,512	69,129
<b>Total</b>	<b>436,277</b>	<b>470,501</b>

**Note:** The Council were part of an East Sussex business rate pilot scheme in 2019/20 and so Revenue Support Grant was foregone in that year.

14. *Property, Plant, and Equipment*

<b>Movements in 2020/21:</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>	<b>PFI Assets Included in Property, Plant and Equipment*</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>								
<b>At 1 April 2020</b>	<b>365,168</b>	<b>165,155</b>	<b>604,936</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>1,187,047</b>	<b>71,653</b>
Additions	21,287	2,954	33,210	-	99	1,144	58,694	87
Revaluation increases recognised in the Revaluation Reserve	108,888	6,003	-	248	9,338	-	124,477	4,689
Revaluation decreases recognised in the Revaluation Reserve	(45,066)	(26,389)	-	(57)	(1,876)	-	(73,388)	(7,725)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	8,639	108	-	49	31	-	8,827	279
Revaluation decreases recognised in the Provision of Services	(55,425)	(7,618)	-	-	(2,807)	-	(65,850)	(13,508)
Derecognition – disposals	(6,590)	(260)	-	-	(430)	-	(7,280)	-
Derecognition – disposals – schools	(31,940)	(8,569)	-	-	-	-	(40,509)	-
Assets reclassified within PPE	2,358	(1,535)	28,402	-	2,914	(32,139)	-	-
Assets reclassified (to)/from Held for Sale	(85)	-	-	-	(10,094)	-	(10,179)	-
Assets reclassified (to)/from Investment Property	(611)	-	-	-	510	-	(101)	-
<b>At 31 March 2021</b>	<b>366,623</b>	<b>129,849</b>	<b>666,548</b>	<b>2,761</b>	<b>13,815</b>	<b>2,142</b>	<b>1,181,738</b>	<b>55,475</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2020</b>	<b>(4,594)</b>	<b>(27,314)</b>	<b>(192,284)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(224,192)</b>	<b>(1,042)</b>
Depreciation charge	(10,208)	(15,423)	(25,371)	-	(200)	-	(51,202)	(3,234)
Depreciation written out to the Revaluation Reserve	8,345	12,766	-	-	99	-	21,210	2,794
Revaluation losses recognised in the deficit on the Provision of Services	4,882	1,471	-	-	143	-	6,496	1,312
Reversal of previous losses	848	229	-	-	-	-	1,077	170
Derecognition – disposals	20	79	-	-	13	-	112	-
Derecognition – disposals – schools	746	1,571	-	-	-	-	2,317	-
Assets reclassified within PPE	(42)	101	-	-	(59)	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Investment Property	-	-	-	-	-	-	-	-
<b>At 31 March 2021</b>	<b>(3)</b>	<b>(26,520)</b>	<b>(217,655)</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>(244,182)</b>	<b>-</b>

	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*
<b>Movements in 2020/21:</b>								
<b>Net Book Value</b>								
<b>At 31 March 2021</b>	<b>366,620</b>	<b>103,329</b>	<b>448,893</b>	<b>2,761</b>	<b>13,811</b>	<b>2,142</b>	<b>937,556</b>	<b>55,475</b>
<b>At 31 March 2020</b>	<b>360,574</b>	<b>137,841</b>	<b>412,652</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>962,855</b>	<b>70,611</b>
<b>Movements in 2019/20:</b>								
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								<b>Restated*</b>
<b>At 1 April 2019</b>	<b>369,877</b>	<b>171,981</b>	<b>570,163</b>	<b>2,521</b>	<b>16,041</b>	<b>16,199</b>	<b>1,146,782</b>	<b>92,947</b>
Additions	19,473	6,898	34,725	-	102	17,654	<b>78,852</b>	199
Revaluation increases recognised in the Revaluation Reserve	16,964	3,905	-	-	1,026	-	<b>21,895</b>	1,010
Revaluation decreases recognised in the Revaluation Reserve	(16,346)	(6,301)	-	-	(1,281)	-	<b>(23,928)</b>	(2,310)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	7,099	291	-	-	44	-	<b>7,434</b>	2,732
Revaluation decreases recognised in the Provision of Services	(11,741)	(3,799)	-	-	(951)	-	<b>(16,491)</b>	(5,324)
Derecognition – disposals	(5,361)	(849)	-	-	(425)	-	<b>(6,635)</b>	-
Derecognition – disposals - schools	(14,170)	(6,747)	-	-	-	-	<b>(20,917)</b>	(17,601)
Assets reclassified within PPE	(627)	(224)	48	-	1,519	(716)	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(220)	-	<b>(220)</b>	-
Assets reclassified (to) / from Investment Property	-	-	-	-	275	-	<b>275</b>	-
<b>At 31 March 2020</b>	<b>365,168</b>	<b>165,155</b>	<b>604,936</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>1,187,047</b>	<b>71,653</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2019</b>	<b>(340)</b>	<b>(19,193)</b>	<b>(167,883)</b>	<b>-</b>	<b>(86)</b>	<b>-</b>	<b>(187,502)</b>	<b>-</b>
Depreciation charge	(10,468)	(15,479)	(24,401)	-	(200)	-	<b>(50,548)</b>	(4,372)
Depreciation written out to the Revaluation Reserve	3,923	5,600	-	-	276	-	<b>9,799</b>	1,102
Revaluation losses recognised in the deficit on the Provision of Services	1,228	1,257	-	-	-	-	<b>2,485</b>	1,416
Reversal of previous losses	763	7	-	-	9	-	<b>779</b>	232
Derecognition – disposals	1	1	-	-	-	-	<b>2</b>	-

<b>Movements in 2019/20:</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant and Equipment</b>	<b>PFI Assets Included in Property, Plant and Equipment*</b>
Derecognition – disposals - schools	299	492	-	-	-	-	791	580
Assets reclassified within PPE	-	1	-	-	(1)	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	2	-	2	-
Assets reclassified (to) / from Investment Property	-	-	-	-	-	-	-	-
<b>At 31 March 2020</b>	<b>(4,594)</b>	<b>(27,314)</b>	<b>(192,284)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(224,192)</b>	<b>(1,042)</b>
<b>Net Book Value</b>								
<b>At 31 March 2020</b>	<b>360,574</b>	<b>137,841</b>	<b>412,652</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>962,855</b>	<b>70,611</b>
<b>At 31 March 2019</b>	<b>369,537</b>	<b>152,788</b>	<b>402,280</b>	<b>2,521</b>	<b>15,955</b>	<b>16,199</b>	<b>959,280</b>	<b>92,947</b>

\*The 2019/20 PFI asset balances included within Property, Plant and Equipment have been restated to include some assets previously omitted.

### Depreciation

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 policy xxi (Note 2).

### Revenue Expenditure Funded from Capital Under Statute (Refcus)

Refcus represents capital expenditure on assets which are not owned by the Council (e.g. capital grants, adapting the homes of people with disabilities). Refcus 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 2020/21, £12.42m (£13.03m in 2019/20) of the Council's capital investment related to Refcus (Note 38), and all was written off in the year the expenditure was incurred.

### Revaluation and Impairment Losses

Each year the Council revalues a proportion of its land and building assets including schools and undertakes an impairment review of the entire asset portfolio. Where land and property assets have increased in value, the revaluation gains are shown in the revaluation reserve (see Note 25) and totalled £131.5m for 2020/21 (£27.4m in 2019/20). Where assets previously had a revaluation loss taken to the Comprehensive Income and Expenditure Statement then any subsequent increase first goes to the Comprehensive Income and Expenditure Statement to reverse that previous loss before any remaining balance is taken to the revaluation reserve, the reversal of losses in 2020/21 totalled £10.0m (£8.2m 2019/20).

Some assets will also lose value on revaluation. In 2020/21, the Council has recognised revaluation losses of £118.5m (£33.7m in 2019/20). Of the £118.5m total, £59.3m (£14.0m 2019/20) has been charged to the Comprehensive Income and Expenditure Statement and £59.2m (£19.7m in 2019/20) to the Revaluation Reserve. The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was £49.3m (£5.8m 2019/20). Overall the total valuation movements for 2020/21 was a net gain of £23.0m (£1.9m in 2019/20).

For 2020/21 the values shown above for revaluation movements are significantly higher compared to the prior year figures. This movement is primarily due to the appointment of a new firm of valuers, Bruton Knowles, for the 2020/21 valuations and the impact of changes in their valuation methodology. As this is the first year of Bruton Knowles valuing the Council's assets we asked them to undertake a full valuation of the entire portfolio so that all assets would be valued on a consistent basis.

### Capital Commitments

As at 31st March 2021, the Council had not entered into any material contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years that amounted to the value of £10m or more.

**Valuation of Property, Plant and Equipment (PPE)**

The Council operates a policy of revaluing its Property, Plant and Equipment on a rolling three year basis, with the aim of revaluing all of its assets within this period. An index (based on assets that have been formally valued in the year) may be applied to those assets not valued in the year if the carrying value is calculated as materially different to the fair value at the Balance Sheet date. The Council also reviews the asset register each year, and, if necessary adjusts the value of assets if a significant impairment has been identified.

Freehold and long leasehold buildings properties regarded by the Council as operational are valued on the basis of existing use value or, where there is insufficient market evidence of current value because the asset is specialised or rarely sold, 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 and plant are depreciated in line with the estimated life expectancies of the assets. Land is revalued but not depreciated.

Items of school and offices furniture, IT and other equipment are measured at historic cost as a proxy for current value. Their value is updated for capital expenditure and depreciated in line with the estimated lives of the assets. The total is £39.11m as shown in the table below.

Infrastructure and community assets are not revalued and are updated for capital expenditure and in the case of infrastructure, depreciated in accordance with the expected life of the asset created or enhanced. Community assets include country parks, common ground, nature reserves and forested areas.

Surplus assets are non-operational but are not deemed to be held for sale and are measured at fair value. The fair value takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The following statement shows the progress of the Council's programme for the revaluation of land, buildings and plant. The valuations are carried out by an external firm of valuers, Bruton Knowles (a national Chartered Surveying practice), on behalf of the Council. The valuation dates are at 31 March each year. In addition to the valuation certificate, the valuers provide an annual Impairment Report. Usually the Council operates a three year rolling programme to ensure that the carrying value of assets is not materially different to their fair values at the Balance Sheet date, however as 2020/21 was the first year that the valuations had been carried out by Bruton Knowles the entire portfolio was revalued to ensure consistency in the valuations. In addition, an annual indexation may be applied to the remaining portfolio (based on those assets that were valued by the valuer in the year) if the values are deemed to be materially different to their carrying value. Indexation was last applied in 2018/19.

	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture and Equipment</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Carried as at historical cost</b>	84	39,030	-	<b>39,114</b>
<b>Valued at fair value in:</b>				
31 March 2021	366,539	90,819	13,815	<b>471,173</b>
31 March 2020	-	-	-	-
31 March 2019	-	-	-	-
<b>Gross Valuation</b>	<b>366,623</b>	<b>129,849</b>	<b>13,815</b>	<b>510,287</b>

**Fair value hierarchy**

As at 31 March 2021, there are twenty-one properties classed as surplus, an increase of five on the previous year. Four properties were reclassified as held for sale. The fair value hierarchy of surplus assets at 31 March are as follows:

Recurring fair value measurements using:	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Other significant observable Inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Surplus assets (NBV) 31 March 2021	-	4,799	9,012	<b>13,811</b>
Surplus assets (NBV) 31 March 2020	-	14,222	1,908	<b>16,130</b>

The surplus assets measured at Level 3 in the fair value hierarchy where the measurement technique uses significant unobservable inputs to measure the fair value. The fair value has been derived on a comparable basis for income producing assets or residential properties (using rent yield or capital value per square metre) or derived through an assessment of prevailing land values for unconsented sites or a residual land appraisal. For assets offering development potential (alternative use) the valuation is based on the highest value that has a reasonable prospect of securing an appropriate planning consent. Restrictions on the sale or use of an asset affect its fair value only if market participants would also be impacted by those restrictions.

Highest and best use is determined only from the perspective of market participants, even if the Council intends a different use. Alternative uses of those assets are considered if there is an alternative use that would maximise their fair value. However, the Council is not required to perform an exhaustive search for other potential uses of the assets if there is no evidence to suggest that the current use of an asset is not its highest and best use.

## 15. Investment Properties

An investment property is held solely to earn rentals and/or for capital appreciation. Examples include land held for capital appreciation, land held for currently undetermined future use and a building or vacant building rented out under operating leases without service objectives. There are 27 assets classed as investment property, a decrease of one from the previous year.

The following items of income have been accounted for in the Comprehensive Income and Expenditure Statement:

	2019/20	2020/21
	£000	£000
Rental Income from Investment Property	(248)	(257)
Direct Operating Expenses arising from Investment Property	52	119
<b>Net (gain)</b>	<b>(196)</b>	<b>(138)</b>

The following table summarises the movement in the fair value of investment properties over the year:

	2019/20	2020/21
	£000	£000
<b>Balance at start of the year</b>	<b>17,962</b>	<b>11,063</b>
Additions	2	4
Net (Losses) from fair value adjustments	(6,476)	(17)
Transfers (to) / from Property, Plant & Equipment & Assets Held for Sale	(425)	101
<b>Balance at end of the year</b>	<b>11,063</b>	<b>11,151</b>

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a non-financial asset, an investment property is measured at its highest and best use. Highest and best use is determined only from the perspective of market participants, even if the Council intends a different use. Restrictions on the sale or use of an asset affect its fair value only if market participants would also be impacted by those restrictions. Alternative uses of those assets are considered if there is an alternative use that would maximise their fair value. However, the Council is not required to perform an exhaustive search for other potential uses of the assets if there is no evidence to suggest that the current use of an asset is not its highest and best use. The properties are categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to measure the fair value. The valuation techniques used are the market approach and income approach using estimated land values, sales value, rents and yield. In estimating the fair value of the investment property, the highest and best use is the current use.

**Fair value hierarchy**

The fair value hierarchy at 31 March is as follows:

Recurring fair value measurements using:	31 March 2021			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Offices	-	4,923	-	<b>4,923</b>
Farm Business Tenancy	-	1,669	-	<b>1,669</b>
Land	-	628	-	<b>628</b>
Residential Property	-	1,395	-	<b>1,395</b>
Other	-	1,970	566	<b>2,536</b>
<b>Total</b>	-	<b>10,585</b>	<b>566</b>	<b>11,151</b>

Recurring fair value measurements using:	31 March 2020			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Offices	-	4,750	-	<b>4,750</b>
Farm Business Tenancy	-	-	950	<b>950</b>
Land	-	750	6	<b>756</b>
Residential Property	-	1,490	-	<b>1,490</b>
Other	-	1,173	1,944	<b>3,117</b>
<b>Total</b>	-	<b>8,163</b>	<b>2,900</b>	<b>11,063</b>

**16. Intangible Assets**

The Council accounts for its software as Intangible Assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. 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 £1.82m charged to revenue in 2020/21 (£2.47m in 2019/20) was charged to Business Services.

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

	2019/20	2020/21
	£000	£000
<b>Balance at start of year:</b>		
Gross carrying amounts	14,239	13,496
Accumulated amortisation	(8,997)	(8,751)
<b>Net carrying amount at start of year</b>	<b>5,242</b>	<b>4,745</b>
Purchases	1,971	577
Amortisation for the period	(2,468)	(1,817)
Disposal (Gross carrying amount)	(2,714)	-
Disposal (Accumulated amortisation)	2,714	-
<b>Net carrying amount at end of year</b>	<b>4,745</b>	<b>3,505</b>



	2019/20	2020/21
	£000	£000
<b>Comprising:</b>		
Gross carrying amounts	13,496	14,073
Accumulated amortisation	(8,751)	(10,568)
<b>Net carrying amount at end of year</b>	<b>4,745</b>	<b>3,505</b>

The individual items of capitalised software in the Balance Sheet are:

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2020 £000	31 March 2021 £000	
LiquidLogic – ASC & Children's clients	1,132	712	2
Virtual Infrastructure	1,672	1,506	3
Desktop Anywhere – remote access	40	-	-
SAP Software - ERP	312	207	2
Microsoft Enterprise Solution	58	-	-
Czone Platform – education providers	100	50	1
Compliance Management	40	14	1
Security Incident Management	66	-	-
Web Content Management System	46	-	-
HRMS Financials	63	32	1
Atrium – asset management	59	15	1
Mapping Outlet	238	178	3
Citrix	302	151	1
SharePoint	120	118	10
Other	497	522	1 – 3
<b>Total</b>	<b>4,745</b>	<b>3,505</b>	

## 17. 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;
- A small art collection within offices at County Hall, Lewes;
- Chattels at Bentley House, Halland;
- Battle Abbey Estate Archives;
- Lewes Castle Precinct Wall; and
- 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-minimis 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 Asset:**

	<b>Art Collection</b>	<b>Chattels at Bentley House</b>	<b>The Sugar Loaf Folly</b>	<b>Battle Abbey Estate Archives</b>	<b>Castle Precincts Wall</b>	<b>Total</b>
<b>Heritage Assets</b>						
<b>Cost or valuation</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April 2019</b>	<b>13</b>	<b>484</b>	<b>60</b>	<b>116</b>	<b>65</b>	<b>738</b>
Additions	-	-	-	-	-	-
Revaluation (Loss)	-	-	(21)	-	(65)	(86)
<b>31 March 2020</b>	<b>13</b>	<b>484</b>	<b>39</b>	<b>116</b>	<b>0</b>	<b>652</b>
Additions	-	-	-	-	-	-
Revaluation Gain	-	-	2	-	-	2
<b>31 March 2021</b>	<b>13</b>	<b>484</b>	<b>41</b>	<b>116</b>	<b>-</b>	<b>654</b>

**Heritage Assets – Further Information**

**East Sussex Record Office, The Keep** - 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. taxidermy specimens, British wildlife, fossils and minerals, historical artefacts, both original items e.g. small mummified animals, Roman and Greek 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** - consists of four oil on canvas paintings, three dating from the 1880's and one more recent; being 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 (Gorrings Auction House) has previously carried out a full valuation of the collection of paintings 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 was undertaken by Sotheby's who provided a saleroom estimate for each inventory 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 Remains of Wayside Cross, Firlie and Albert Memorial Well, Frant.

**Battle Abbey Estate Archives** - date from 1101 to the 20<sup>th</sup> century. The earliest records relate to the period when the lands were owned by Battle Abbey before its dissolution in 1538 but the majority date from the 18<sup>th</sup> century onwards when the estates were owned by the Webster family.

**Castle Precincts Wall** – remains of castle wall at Lewes Castle. A section of the wall collapsed in November 2019 and work is being undertaken to restore it to the requirements of Heritage England, the cost of which are currently unknown.

**18. Financial Instruments****A. Categories of Financial Instruments**

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

<b>Financial Assets</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
<b>Fair value through profit or loss</b>		
Long Term Investments	4,493	4,461
Long Term Debtors	-	-
Short Term Investments & Cash Equivalents	18,150	73,602
Short Term Debtors	-	-
<b>Total</b>	<b>22,643</b>	<b>78,063</b>
<b>Amortised Cost</b>		
Long Term Investments	20,001	15,001
Long Term Debtors	4,960	4,893
Short Term Investments	182,146	195,364
Short Term Debtors	28,137	34,244
<b>Total</b>	<b>235,244</b>	<b>249,502</b>
<b>Total Financial Assets</b>	<b>257,887</b>	<b>327,565</b>
<b>Non Financial Assets</b>	<b>33,903</b>	<b>31,106</b>
<b>Total</b>	<b>291,790</b>	<b>358,671</b>

<b>Financial Liabilities</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
<b>Fair value through profit or loss</b>		
Short & Long Term Borrowings and Creditors	-	-
<b>Amortised Cost</b>		
Long Term Borrowings	(237,923)	(232,980)
Long Term Creditors	(67,051)	(66,569)
Short Term Borrowings	(2,312)	(4,615)
Short Term Creditors	(92,428)	(84,316)
<b>Total Financial Liabilities</b>	<b>(399,714)</b>	<b>(388,480)</b>
<b>Non Financial Liabilities</b>	<b>(54,747)</b>	<b>(69,800)</b>
<b>Total</b>	<b>(454,461)</b>	<b>(458,280)</b>

The balance on Soft Loans at 31 March 2021 was £0.142m (£0.139m at 31 March 2020).

**B. Financial Instruments Designated at Fair Value through Profit or Loss**

The balance of financial assets at 31 March 2021 was £78.06m, an increase of £55.42m from the previous year. Financial assets include £73.6m low volatility money market funds (LVNAV) and £4.46m property fund (carrying amount £5.00m). Total holdings in the five money market funds have increased by £55.45m over the year. The value of the Property fund has reduced further by £0.032m during the year.

The constant net asset value (CNAV) money market funds were reclassified as LVNAV under European Money Market reform.

There were no financial liabilities designated at fair value through profit or loss. No financial assets or liabilities were classed as fair value through other comprehensive income. No financial assets or liabilities were re-classified during the year.

**C. Income, Expense, Gains and Losses**

	2019/20		2020/21	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
<b>Net gains/losses on:</b>				
Financial assets measured at fair value through profit or loss – fair value	167	-	32	-
Financial assets measured at fair value through profit or loss – dividend	(201)	-	(200)	-
<b>Total net (gains) / losses</b>	<b>(34)</b>	<b>-</b>	<b>(168)</b>	<b>-</b>
<b>Interest revenue:</b>				
Financial assets measured at amortised cost	(2,362)	-	(1,652)	-
<b>Interest expense:</b>				
Financial assets measured at amortised cost	17,673	-	17,134	-

**D. Fair Value**

The basis for recurring fair value measurements is:

- **Level 1** Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- **Level 2** Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** Inputs – unobservable inputs for the asset or liability.

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31/3/20 £000	As at 31/3/21 £000
<b>Fair Value through Profit or Loss</b>				
Other financial instruments	Level 1	Unadjusted quoted prices in active markets for identical shares	22,643	78,063

There were no transfers between levels 1 and 2 during the year. There has been no change in the valuation technique used during the year for the financial instruments.

There were no instruments, measured at fair value, that were at level 3 in the hierarchy.

**E. Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value [but for which fair value disclosures are required]**

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;
- For non-PWLB loans payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

#### Financial Liabilities

	31 March 2020		31 March 2021	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost	(237,923)	(309,439)	(232,980)	(322,312)
Long Term Creditors	(78)	(78)	(222)	(222)
PFI and Finance Lease Liabilities	(66,973)	(91,406)	(66,347)	(92,688)
<b>Total Long Term</b>	<b>(304,974)</b>	<b>(400,923)</b>	<b>(299,549)</b>	<b>(415,222)</b>
Short Term Borrowings and Creditors	(94,740)	(94,740)	(88,931)	(88,931)
<b>Total Long and Short Term</b>	<b>(399,714)</b>	<b>(495,663)</b>	<b>(388,480)</b>	<b>(504,153)</b>

The fair value of borrowings is higher than the carrying amount because the portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date.

This shows a notional future loss, based on economic conditions at 31 March 2021, arising from a commitment to pay interest to lenders above current market rates.

#### Financial Assets

	31 March 2020		31 March 2021	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets held at amortised cost	20,001	20,383	15,001	15,192
Long Term Debtors	4,960	4,960	4,893	4,893
<b>Total Long Term</b>	<b>24,961</b>	<b>25,343</b>	<b>19,894</b>	<b>20,085</b>
Short Term Investments and Debtors	210,283	210,283	229,608	229,608
<b>Total Long and Short Term</b>	<b>235,244</b>	<b>235,626</b>	<b>249,502</b>	<b>249,693</b>

The fair value of the financial assets is higher than the carrying amount because the portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain, based on economic conditions at 31 March 2021, attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

#### Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

Recurring fair value measurements using:	31 March 2021			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost	-	(322,312)	-	(322,312)
Long Term Creditors	-	(222)	-	(222)
PFI and Finance Lease Liabilities	-	-	(92,688)	(92,688)
<b>Total</b>	-	<b>(322,534)</b>	<b>(92,688)</b>	<b>(415,222)</b>

**Financial assets**

Financial assets held at amortised cost	-	15,192	-	<b>15,192</b>
Long Term Debtors	-	4,893	-	<b>4,893</b>
<b>Total</b>	-	<b>20,085</b>	-	<b>20,085</b>

Recurring fair value measurements using:	31 March 2020			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost	-	(309,439)	-	<b>(309,439)</b>
Long Term Creditors	-	(78)	-	<b>(78)</b>
PFI and Finance Lease Liabilities	-	-	(91,406)	<b>(91,406)</b>
<b>Total</b>	-	<b>(309,517)</b>	<b>(91,406)</b>	<b>(400,923)</b>

**Financial assets**

Financial assets held at amortised cost	-	20,383	-	<b>20,383</b>
Long Term Debtors	-	4,960	-	<b>4,960</b>
<b>Total</b>	-	<b>25,343</b>	-	<b>25,343</b>

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at 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.

**Financial Assets**

- no early repayment or impairment is recognised;
- estimated ranges of interest rates at 31 March 2021 for loans receivable and for property fund, are based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

**Financial Liabilities**

- no early repayment is recognised;
- estimated ranges of interest rates at 31 March 2021 of 2.6% to 7.8% for loans payable based on new lending rates for equivalent.

**19. Assets Held for Sale**

	2019/20	2020/21
	£000	£000
<b>Balance outstanding at start of year</b>	<b>3,445</b>	<b>2,624</b>
Assets newly classified as held for sale	368	10,179
Revaluations	(99)	(31)
Assets declassified as held for sale	-	-
Assets sold / disposed of	(1,090)	(651)
<b>Balance outstanding at year end</b>	<b>2,624</b>	<b>12,121</b>

Assets Held for Sale are valued at fair value which takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. As at 31 March 2021 there are nine assets that were held for sale. During the year, one asset was sold and one asset disposed of from the register.

**20. Current & Long Term Debtors and Payments in Advance**

	31 March 2020 £000	31 March 2021 £000
<b>Current</b>		
Debtor System Control	12,572	12,288
HMRC	4,615	2,363
Payments In Advance	9,237	9,040
Council Tax & NNDR	20,052	19,703
Other	15,564	21,956
<b>Total</b>	<b>62,040</b>	<b>65,350</b>
<b>Long Term</b>		
Higher Education Institution	849	792
South East Local Enterprise Partnership	1,600	1,483
Economic Development	2,406	2,387
Other Entities and Individuals	105	231
<b>Total</b>	<b>4,960</b>	<b>4,893</b>

**Allowance for expected credit losses**

The Council makes allowance for impairment of debts based on an assessment of the recoverability of its receivables. A decrease in the total allowance for credit losses of £0.043m was made in 2020/21, bringing the total allowance for impairment from £1.712m down to £1.669m as at 31 March 2021. These amounts are netted off the figures shown 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 2021 the Council's share of these allowances amounts to £14.942m (£11.356m at 31 March 2020) out of its share of Council Tax & Business Rates arrears totalling £33.932m (£27.210m at 31 March 2020).

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

	31 March 2020 £000	31 March 2021 £000	Movement £000
Cash in hand	113	108	(5)
Short-term deposits	18,159	45,800	27,641
<b>Total Cash and Cash Equivalents</b>	<b>18,272</b>	<b>45,908</b>	<b>27,636</b>
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(497)	(349)	148
Bank overdraft	(10,164)	(10,320)	(156)
Accrued balance at bank and for third parties	2,236	4,417	2,181
<b>Total bank overdraft and accrued balance for third parties</b>	<b>(8,425)</b>	<b>(6,252)</b>	<b>2,173</b>
<b>Net cash and cash equivalent balances/(overdrawn)</b>	<b>9,847</b>	<b>39,656</b>	<b>(29,809)</b>

Note 30 sets out some details of the arrangements under which the Council 'hosts' the finances of pooled arrangements for Pooled Budgets (with Clinical Commissioning Boards). 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 its share of Orbis 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 2020	31 March 2021
	£000	£000
Orbis	2,539	4,721
Trust Funds (see Note 46)	(303)	(304)
<b>Accrued balance at bank and for third parties</b>	<b>2,236</b>	<b>4,417</b>

The pooled bank balances at 31 March 2021 include £14.32m (£13.27m at 31 March 2020) relating to bank accounts operated by schools under local management arrangements.

## 22. Creditors and Income in Advance

	31 March 2020	31 March 2021
	£000	£000
Creditor System Control	5,086	5,240
Income in Advance	26,419	25,161
Pension Schemes	5,054	5,173
HMRC	5,078	5,397
PFI Schemes	4,692	4,895
Council Tax & NNDR	8,748	18,772
East Sussex Fire Authority	24,348	20,469
Capital	-	5,278
Other	49,774	42,067
<b>Total</b>	<b>129,199</b>	<b>132,452</b>

## 23. 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:

	31 March 2020	Additional provisions	Amounts used	31 March 2021
	£000	£000	£000	£000
<b>Long Term Provisions</b>				
Insurance claims	2,553	-	(883)	1,670
Closed Landfill Sites	8,811	-	(137)	8,674
<b>Total Long Term</b>	<b>11,364</b>	<b>-</b>	<b>(1,020)</b>	<b>10,344</b>
<b>Short Term Provisions</b>				
	31 March 2020	Additional provisions	Amounts used	31 March 2021
	£000	£000	£000	£000
Municipal Mutual Insurance (MMI)	105	24	-	129
NNDR Appeals	3,250	-	(1,884)	1,366
Adult Social Care	1,593	923	-	2,516
CET	-	64	-	64
Closed Landfill Sites	490	-	-	490
Redundancy	6	-	(6)	-
<b>Total Short Term</b>	<b>5,444</b>	<b>1,011</b>	<b>(1,890)</b>	<b>4,565</b>
<b>Total Provisions</b>	<b>16,808</b>	<b>1,011</b>	<b>(2,910)</b>	<b>14,909</b>

Insurance claims - the provision (pre 1997 & post 1997 liabilities) represents an estimate of the amounts which the Council will have to pay for claims arising before 31 March 2015, but where the exact amount and the date of payment are uncertain.

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.

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 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 2021.

Adult Social Care - is an estimate of payments due to other local authorities for costs incurred for clients with care and support needs commissioned by those authorities, whose ordinary residence (as defined under the Care Act) is deemed to be in East Sussex.

Communities, Economy & Transport (CET) – is for additional COVID related costs being claimed by South Downs Waste Services Ltd.

Redundancy – the provision relates to the potential costs associated with various services redundancies.

## 24. 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.

- General Fund & School Balances - The General Fund and School balances shows the resources available to meet future running costs. See Note 10 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 10 for a breakdown of General Fund earmarked reserves.
- Capital Receipts Reserve – see note below.
- Capital Grant & Contributions Unapplied Account – see note below.

	31 March 2020	31 March 2021
	£000	£000
Usable Capital Receipts Reserve	3,044	5,840
Capital Grants & Contributions Unapplied	14,132	17,323
Earmarked Reserves	82,539	105,847
Earmarked Reserves – Revenue Grants & Contributions	42,158	75,326
General Fund Balances	9,999	9,999
School Balances	15,041	20,512
<b>Total Usable Reserves</b>	<b>166,913</b>	<b>234,847</b>

### 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.

	2019/20	2020/21
	£000	£000
<b>Balance at 1 April</b>	<b>3,122</b>	<b>3,044</b>
Amounts receivable during the year	3,044	2,796
Amounts applied to finance new capital investment	(3,122)	-
Net Transfer to / (from) the Capital Receipts Reserve	(78)	2,796
<b>Balance at 31 March</b>	<b>3,044</b>	<b>5,840</b>

**Capital Grants and Contributions Unapplied Account**

This account holds capital grants and contributions received by the Council, with either no conditions or where conditions have been met, where expenditure is yet to be incurred. The 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.

	2019/20 £000	2020/21 £000
<b>Balance at 1 April</b>	<b>18,223</b>	<b>14,132</b>
Amounts receivable during the year	58,512	69,129
Amounts applied to finance new capital investment	(62,603)	(65,938)
Net Transfer to/(from) the Capital Unapplied Account	(4,091)	3,191
<b>Balance at 31 March</b>	<b>14,132</b>	<b>17,323</b>

**25. Unusable Reserves**

	31 March 2020 £000	31 March 2021 £000
Revaluation Reserve	227,245	266,767
Capital Adjustment Account	417,309	367,819
Financial Instruments Adjustment Account	(7,327)	(7,137)
Pooled Investment Funds Adjustment Account	(507)	(539)
Collection Fund Adjustment Account	4,028	(4,944)
Accumulated Absences Account	(5,179)	(6,322)
Pensions Reserve	(416,868)	(559,382)
<b>Total Unusable Reserves</b>	<b>218,701</b>	<b>56,262</b>

**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.

	2019/20 £000	2020/21 £000	£000
<b>Balance at 1 April</b>	<b>246,588</b>		<b>227,245</b>
Upward revaluation of assets	27,442	131,465	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(19,697)	(59,164)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	7,745		72,301
Difference between fair value depreciation and historical cost depreciation	(10,628)	(10,209)	
Accumulated gains on assets sold or scrapped	(16,460)	(22,570)	
Amount written off to the Capital Adjustment Account	(27,088)		(32,779)
<b>Balance at 31 March</b>	<b>227,245</b>		<b>266,767</b>

**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 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2019/20 £000	2020/21 £000      £000
<b>Balance at 1 April</b>	<b>415,663</b>	<b>417,309</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation and impairment of non-current assets	(50,548)	(51,202)
Revaluation losses on non-current assets	(14,073)	(59,497)
Revaluation losses on assets held for sale	(98)	(174)
Revaluation loss reversals on non-current assets	8,213	10,048
Revaluation loss reversals on assets held for sale	-	143
Amortisation of intangible assets	(2,468)	(1,817)
Financial Asset Impairment (Gains)/Losses	37	(36)
Revenue expenditure funded from capital under statute	(13,032)	(12,418)
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	(27,847)	(46,648)
	<b>(99,816)</b>	<b>(161,601)</b>
Adjusting amounts written out of the Revaluation Reserve	27,088	32,779
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(72,728)</b>	<b>(128,822)</b>
<b>Capital financing applied in the year</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	3,122	-
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	62,603	65,938
Statutory provision for the financing of capital investment charged against the General Fund balance	10,507	7,004
Capital expenditure charged against General Fund balances	4,618	6,407
	<b>80,850</b>	<b>79,349</b>
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	(6,476)	(17)
<b>Balance at 31 March</b>	<b>417,309</b>	<b>367,819</b>

**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 2021 will be charged to the General Fund over a specific period.

**Balance at 1 April**

Premiums

Soft Loan Interest

**Net movement in the Financial Instruments Adjustment Account****Balance at 31 March**

2019/20 £000	2020/21 £000	£000
(7,517)		(7,327)
187	187	
3	3	
190		190
(7,327)		(7,137)

**Pooled Investment Funds Adjustment Account**

The account mitigates the impact of fair value movements on pooled investment funds.

**Balance at 1 April**

Fair value of Property Fund

**Balance at 31 March**

2019/20 £000	2020/21 £000
(340)	(507)
(167)	(32)
(507)	(539)

**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.

**Balance at 1 April**

Remeasurement of the net defined liability

Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement

Employer's pension contributions charged to General Fund Balance

**Balance at 31 March**

2019/20 £000	2020/21 £000
(521,412)	(416,868)
144,523	(89,195)
(80,544)	(91,421)
40,565	38,102
(416,868)	(559,382)

**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.

	2019/20 £000	2020/21 £000
<b>Balance at 1 April</b>	<b>2,837</b>	<b>4,028</b>
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	511	(1,754)
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	680	(7,218)
<b>Net movement in the Collection Fund Adjustment Account</b>	<b>1,191</b>	<b>(8,972)</b>
<b>Balance at 31 March</b>	<b>4,028</b>	<b>(4,944)</b>

**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.

	2019/20 £000	2020/21 £000
<b>Balance at 1 April</b>	<b>(5,179)</b>	<b>(5,179)</b>
Settlement or cancellation of accrual made at the end of the preceding year	5,179	5,179
Amounts accrued at the end of the current year	(5,179)	(6,322)
<b>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</b>	<b>-</b>	<b>(1,143)</b>
<b>Balance at 31 March</b>	<b>(5,179)</b>	<b>(6,322)</b>

The increase of £1.1m accrued for accumulated absences during 2020/21 was due to an increase in untaken leave being carried forwards as a result of COVID-19.

**26. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
Net deficit on the provision of services	45,257	77,611

The deficit on the provision of services has been adjusted for the following non-cash movements:

Depreciation	(50,548)	(51,202)
Impairment and downward valuations	(5,958)	(49,480)
Amortisation	(2,468)	(1,817)
(Increase)/decrease in creditors	1,753	(10,576)
Increase in debtors	10,785	3,327
Increase/(decrease) in inventories	(2)	-
Movement in pension liability	(39,979)	(53,319)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(27,847)	(46,648)
Other non-cash items charged to the net deficit on the provision of services	(9,348)	1,834
<b>Total</b>	<b>(123,612)</b>	<b>(207,881)</b>

The deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

Proceeds from the sale of PPE, investment property and intangible assets	3,044	2,178
Capital grants credited to deficit on provision of services	58,512	69,747
<b>Total</b>	<b>61,556</b>	<b>71,925</b>

**Net cash flows from operating activities**

<b>(16,799)</b>	<b>(58,345)</b>
-----------------	-----------------

The cash flows for operating activities include the following items:

	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
Interest received	(2,348)	(1,864)
Interest paid	13,376	17,134
Dividends received	(201)	(200)

**27. Cash Flow Statement – Investing Activities**

	<b>2019/20</b>	<b>2020/21</b>
	<b>£000</b>	<b>£000</b>
Purchase of PPE, Investment Property and Intangibles	83,869	60,597
Other payments for investing activities	646	654
Proceeds from the sale of PPE, Investment Property and Intangibles	(3,044)	(2,178)
Proceeds from short and long term investments (net)	(8,000)	36,000
Other receipts from investing activities	(59,068)	(69,799)
<b>Net cash flows from investing activities</b>	<b>14,403</b>	<b>25,274</b>

**28. Cash Flow Statement – Financing Activities**

Cash payments for the reduction of PFI Liabilities  
 Repayments of short and long term borrowing  
**Net cash flows from financing activities**

2019/20	2020/21
£000	£000
4,686	626
5,272	2,636
<b>9,958</b>	<b>3,262</b>

**29. Cash Flow Statement – Reconciliation of Liabilities arising from Financing Activities**

	1 April 2020	Financing Cash Flows	Non Cash Changes	31 March 2021
	£000	£000	£000	£000
Long Term Borrowings	(237,923)	1,318	3,624	(232,981)
Short Term Borrowings	(1,318)	1,318	(3,624)	(3,624)
PFI Liabilities	(66,973)	626	-	(66,347)
<b>Net cash flows from financing activities</b>	<b>(306,214)</b>	<b>3,262</b>	<b>-</b>	<b>(302,952)</b>

	1 April 2019	Financing Cash Flows	Non Cash Changes	31 March 2020
	£000	£000	£000	£000
Long Term Borrowings	(240,559)	2,636	-	(237,923)
Short Term Borrowings	(3,954)	2,636	-	(1,318)
PFI Liabilities	(71,659)	4,686	-	(66,973)
<b>Net cash flows from financing activities</b>	<b>(316,172)</b>	<b>9,958</b>	<b>-</b>	<b>(306,214)</b>

**30. Pooled Budget and Partnership Arrangements**

In 2020/21 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006:

- The Integrated Community Equipment Service (ICES) started in September 2004 and comprises the Council as host agency and East Sussex Clinical Commissioning Group (ES CCG).
- The Better Care Fund (BCF) started in April 2015.

BCF planning was required for the whole of East Sussex and was signed off by the Health and Wellbeing Board in October 2017. This arrangement is supported by a Section 75 pooled budget legal agreement, of which ESCC is the lead body. In practice, the substance of the Better Care Fund arrangement is not one of a pooled budget due to a local agreement for ESCC to invoice the CCG for BCF funded expenditure commissioned directly by ESCC, while the CCG retains the remainder of its contribution to the pool to fund any expenditure commissioned through the CCG. Use of funding is agreed in partnership under joint governance arrangements as set out in the Section 75 agreement. The CCGs and ESCC will continue to work towards greater integration and joint commissioning of services in future years and the accounting for the Better Care Fund will therefore be reviewed each year.

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

Arrangement	2019/20			2020/21		
	Expenditure	Income	County Council Contribution	Expenditure	Income	County Council Contribution
	£000	£000		£000	£000	
Integrated Community Equipment	5,187	(5,187)	(2,593)	4,938	(4,938)	(2,469)
Better Care Fund	69,037	(69,037)	(28,991)	69,998	(69,998)	(31,406)

**Mental Health Community Forensic scheme**

The Mental Health Community Forensic scheme, which started in April 2010, comprises the Council and the Sussex Partnership NHS Foundation Trust. This operates under a section 75 agreement, but not as a pooled budget. The financial value of transactions during 2020/21 was £276,130 (£237,211 in 2019/20).

**Orbis Joint Operating Budget**

The expenditure and funding is detailed below:

Funding provided to the joint budget:

- Surrey County Council (43%)
- East Sussex County Council (30%)
- Brighton & Hove City Council (27%)

Total Funding

Expenditure met from the joint budget

**Net surplus/deficit on the joint budget**

2019/20 £000	2020/21 £000
(33,430)	(17,218)
(13,644)	(11,740)
(13,277)	(10,953)
<b>(60,351)</b>	<b>(39,911)</b>
60,351	39,911
-	-

Overall expenditure in the pooled Orbis budget decreased notably between 2019/20 and 2020/21, due to changes in the Partnership arrangements. Property Services budgets were removed from the Partnership and returned to Sovereign control. In addition, Finance and HR became "Partially Integrated" as Surrey County Council withdrew in these areas, thereby reducing the net Orbis Finance and HR budget.

**Regional Adoption Agency (RAA) Adoption South East (ASE)**

In line with the Government's requirement for all LA adoption to be carried out on a regional level, East Sussex, West Sussex, Brighton & Hove, and Surrey councils have formed the Regional Adoption Agency (RAA) Adoption South East (ASE). The RAA has been operational since April 2020 and ESCC is the host organisation. Each member Local Authority provides their contribution towards the running of ASE into a pooled budget which is held by ESCC as the lead body. The amount carried forward remains ASE's funding, held within the ESCC bank account.

ASE Total Budget

Expenditure

Income

ASE carry forward into 2021/22

Brighton & Hove City Council Contribution (19%)

East Sussex County Council Contribution (19%)

Surrey County Council Contribution (26%)

West Sussex County Council Contribution (36%)

2019/20 £000	2020/21 £000
-	5,118
-	4,865
-	(5,118)
-	<b>253</b>
-	994
-	955
-	1,333
-	1,836
-	<b>5,118</b>

**31. Members' Allowances**

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

Salaries - basic allowances

Special responsibility allowances

Expenses

**Total**

2019/20 £000	2020/21 £000
639	648
223	231
30	3
<b>892</b>	<b>882</b>



The table below shows the actual amounts paid to individual members in the 2020/21 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 the Constitution.

Member			Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
			£	£	£	£
Cllr.	Barnes	Anthony	13,149	-	-	-
Cllr.	Beaver	Matthew	13,149	-	-	-
Cllr.	Belsey	Colin	13,149	6,711	-	-
Cllr.	Bennett	Nicholas	13,149	18,792	166	6
Cllr.	Bentley	William	13,149	16,107	-	-
Cllr.	Boorman	Phillip *	4,878	-	-	-
Cllr.	Bowdler	Robert	13,149	6,711	-	-
Cllr.	Charman	Tania	13,149	-	-	-
Cllr.	Clark	Charles	13,149	-	-	-
Cllr.	Clarke	Martin	13,149	-	100	-
Cllr.	Daniel	Philip**	13,149	(2,306)	-	-
Cllr.	Daniel	Thomas	13,149	2,687	81	-
Cllr.	Davies	Angharad	13,149	6,711	105	-
Cllr.	Dowling	Christopher	13,149	-	135	-
Cllr.	Dowling	Claire	13,149	16,107	214	-
Cllr.	Earl-Williams	Deidre	13,149	-	-	-
Cllr.	Elford	Simon	13,149	-	-	-
Cllr.	Elkin	David	13,149	13,420	-	-
Cllr.	Enever	Nigel	13,149	-	-	-
Cllr.	Ensor	Michael	13,149	-	-	-
Cllr.	Field	Kathryn	13,149	3,487	71	-
Cllr.	Fox	Gerard	13,149	6,711	-	-
Cllr.	Galley	Roy	13,149	-	90	-
Cllr.	Glazier	Keith	12,300	36,817	-	-
Cllr.	Grover	Darren	13,149	-	-	-
Cllr.	Lambert	Carolyn	13,149	-	-	-
Cllr.	Liddiard	Thomas	13,149	-	-	-
Cllr.	Loe	Laurence	13,149	-	-	-
Cllr.	Maynard	Carl	13,149	16,107	-	-
Cllr.	O'Keeffe	Christina	13,149	-	-	-
Cllr.	Osborne	Sarah	13,149	-	-	-
Cllr.	Pragnell	Peter	13,149	-	-	-
Cllr.	Rodohan	Patrick	13,149	-	-	-
Cllr.	Scott	Philip	13,149	-	-	-
Cllr.	Sheppard	Henry	13,149	5,374	-	-
Cllr.	Shing	Daniel	13,149	-	-	-
Cllr.	Shing	Stephen	13,149	-	71	-
Cllr.	Shuttleworth	Alan	13,149	-	-	-
Cllr.	Simmons	Rupert	13,149	16,107	-	170
Cllr.	Smith	Andy	13,149	-	-	-
Cllr.	Standley	Robert	13,149	16,107	387	13
Cllr.	Stogdon	Richard	13,149	6,711	261	-
Cllr.	Swansborough	Colin	13,149	6,711	323	-
Cllr.	Taylor	Barry	13,149	-	-	-

Member	Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr. Tidy Sylvia	13,149	16,107	393	-
Cllr. Tutt David	13,149	13,420	14	-
Cllr. Ungar John	13,149	-	-	-
Cllr. Wallis Steven	13,149	-	-	-
Cllr. Webb Trevor	13,149	2,687	-	-
Cllr. Whetstone Francis	13,149	-	-	-
<b>Total</b>	<b>648,330</b>	<b>231,286</b>	<b>2,411</b>	<b>189</b>

**Notes:**

\* Resigned in August 2020.

\*\* Negative value is due to a payroll adjustment relating to the prior year.

**32. Officers' Remuneration**

The following table sets out information about the remuneration of those senior managers who influence the decisions of the Council as a whole. In addition, the disclosures below include all Senior Officers whose salary is more than £150,000 per year. The remuneration paid to the Council's senior employees is as follows:

**Senior Employees Remuneration 2020/21**

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contribution	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw	1	101,927	16,236	-	-	20,797	138,960
Executive Director of Adult Social Care – Keith Hinkley	2	9,012	14,650	2,316	-	4,164	30,142
Director of Adult Social Care – Keith Hinkley	3	95,019	6,936	3,472	-	17,944	123,371
Director of Adult Social Care	4	52,702	-	-	-	9,276	61,978
Director of Children's Services – Stuart Gallimore	5	152,031	11,097	784	-	28,711	192,623
Director of Communities, Economy & Transport – Rupert Clubb	6	149,115	-	5,544	-	26,757	181,416
Assistant Chief Executive		146,190	-	-	-	25,729	171,919
Chief Operating Officer	7	122,910	-	-	68,008	21,632	212,550
Chief Operating Officer	8	40,163	-	-	-	-	40,163
Director of Public Health		115,440	-	-	-	20,317	135,757
Chief Finance Officer		99,384	-	-	-	17,492	116,876

**Notes:**

1. The Chief Executive is formally employed by East Sussex County Council but the post is shared with West Sussex County Council under a partnering arrangement. West Sussex County Council make a 50% contribution to the total salary and remuneration costs. The "Additional duties and Acting up" amount is in respect of payment made to reflect the requirement to work across both East and West Sussex County Councils.
2. The Executive Director of Adult Social Care is formally employed by East Sussex County Council but from 15 November 2020 the post is shared with West Sussex County Council under a partnering arrangement. West Sussex County Council make an 80% contribution to the total salary and remuneration costs. The "Additional duties and Acting up" amount reflect the requirement to work across both Councils.
3. Figures shown above detail the remuneration costs up until 15 November 2020 when appointment to the Executive Director of Adult Social Care post commenced.
4. Prior to being appointed to post on 15 November 2020, the Director of Adult Social Care was the Assistant Director – Operations in Adult Social Care. Total earnings for 2020/21 (across both roles) was £130,865 with total employer pension contributions of £23,032.
5. Additional duties and acting up amounts are honorarium payments of 7.5% in respect of 2019/20.
6. Pension Contributions based on salary before childcare vouchers salary sacrifice (£2,916) of £152,031.
7. Ceased employment on 10 January 2021.
8. Employed under an agency contract from January 2021. Figures above include £13,813 relating to March 2021 that was paid in April 2021.

**Senior Employees Remuneration 2019/20**

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensa tion for Loss of Office	Employer's Pension Contribution	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw	1	178,669	-	-	-	31,892	210,561
Chief Operating Officer		147,962	-	-	-	26,411	174,373
Director of Adult Social Care & Health	2	147,962	10,880	6,824	-	28,353	194,019
Director of Children's Services		147,962	-	1,227	-	26,411	175,600
Director of Communities, Economy & Transport	3	145,046	-	5,572	-	26,411	177,029
Assistant Chief Executive		112,350	-	-	-	20,054	132,404
Chief Finance Officer		93,901	-	-	-	16,761	110,662
Director of Public Health		108,467	-	-	-	19,361	127,828

**Notes:**

1. The Chief Executive is formally employed by East Sussex County Council but the post is shared with West Sussex/County Council under a partnering arrangement from 6 January 2020. West Sussex County Council make a 50% contribution to the total salary and remuneration costs;
2. Additional duties and acting up amounts are honorarium payments of 7.5% for April 2018 to March 2019, paid in April 2019;
3. Pension Contributions based on salary before childcare vouchers salary sacrifice (£2,916) of £147,962.

The Council's employees, excluding those shown in the Senior Employees Remuneration table above, receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were:

**Remuneration band**

	<b>2019/20</b> <b>Number of employees</b> <b>(Restated)</b>			<b>2020/21</b> <b>Number of employees</b>		
	<b>Non Schools</b>	<b>Schools</b>	<b>Total</b>	<b>Non Schools</b>	<b>Schools</b>	<b>Total</b>
£50,000 - £54,999	94	71	<b>165</b>	97	86	<b>183</b>
£55,000 - £59,999	28	43	<b>71</b>	42	46	<b>88</b>
£60,000 - £64,999	27	25	<b>52</b>	19	26	<b>45</b>
£65,000 - £69,999	32	16	<b>48</b>	35	20	<b>55</b>
£70,000 - £74,999	6	18	<b>24</b>	11	17	<b>28</b>
£75,000 - £79,999	2	4	<b>6</b>	3	8	<b>11</b>
£80,000 - £84,999	3	3	<b>6</b>	5	4	<b>9</b>
£85,000 - £89,999	5	1	<b>6</b>	6	3	<b>9</b>
£90,000 - £94,999	-	1	<b>1</b>	2	2	<b>4</b>
£95,000 - £99,999	-	4	<b>4</b>	1	1	<b>2</b>
£100,000 - £104,999	1	1	<b>2</b>	1	1	<b>2</b>
£105,000 - £109,999	2	-	<b>2</b>	-	1	<b>1</b>
£110,000 - £114,999	-	-	<b>-</b>	-	-	<b>-</b>
£115,000 - £119,999	2	-	<b>2</b>	1	-	<b>1</b>
£120,000 - £124,999	1	-	<b>1</b>	-	-	<b>-</b>

\*The 2019/20 balances have been restated to remove people included within the Senior Employees Remuneration table above.

**33. 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 100 employees during 2020/21, incurring costs of £0.883m (134 terminations at a cost of £1.5m in 2019/20). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2020/21 and 2019/20 are shown in the tables below.

Exit Packages 2020/21						
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	36	206	52	257	88	463
£20,000 to £39,999	2	46	6	143	8	189
£40,000 to £59,999	1	41	1	48	2	89
£60,000 to £79,999	1	74	1	68	2	142
Total	40	367	60	516	100	883

The total cost of £0.883m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2020/21. There was a total of £0.006m in provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2020/21.

Exit Packages 2019/20							
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	22	141	90	581	112	722	
£20,000 to £39,999	4	135	11	313	15	448	
£40,000 to £59,999	5	250	1	41	6	291	
£60,000 to £79,999	1	65	-	-	1	65	
Total	32	591	102	935	134	1,526	

The total cost of £1.5m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2019/20. There was a total of £0.006m in provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2019/20.

**34. 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 for services rendered during the year. Grant Thornton have been the Council's external auditors since 2018/19 and all fees below relate to work carried out by them unless specified otherwise.

	2019/20 £000	2020/21 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year *	80	111
Additional fee relating to the previous year's audit work**	11	12
Fees payable in respect of other audit services provided by external auditors***	8	12
<b>Total External auditor remuneration</b>	<b>99</b>	<b>135</b>
Refund from Public Sector Audit Appointments (PSAA) ****	(8)	-
<b>Total</b>	<b>91</b>	<b>135</b>

**Notes**

\* For 2019/20, in addition to the £64,350 scale fee, this included an additional agreed charge of £16,000. For 2020/21 Grant Thornton are proposing additional audit fees of £46,500 bringing the total audit fee to £110,850 if approved by the PSAA;

\*\*The PSAA has agreed a further £12,053 of additional fees relating to work carried out during the 2019/20 audit (total fees for 2019/20 were £92,403).

\*\*\* For 2019/20 £3,000 was payable to KPMG and £5,000 was payable to Grant Thornton for work carried out in respect of the Teachers' Pension Scheme. For 2020/21 an additional £12,000 was payable to Grant Thornton for other audit services carried out during 2019/20 on the Teachers' Pension Scheme and for the provision of IAS 19 assurances to Scheme employer auditors;

\*\*\*\* PSAA refund as a result of national refund.

**35. Grant Income**

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

	2019/20 £000	2020/21 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Council Tax	291,195	299,999
Business Rates	85,684	74,493
Social Care Grant	-	14,631
Revenue Support Grant:	-	3,548
<b>General</b>		
Covid Grant	-	555
New Homes Bonus	886	761
Business Rates Relief Funding	-	6,698
Local Income Tax Guarantee Funding	-	687
	886	8,701
Capital grants and contributions recognised	58,512	69,129
<b>Total</b>	<b>436,277</b>	<b>470,501</b>
<b>Grants Credited to Services</b>		
Dedicated Schools	225,645	234,305
Public Health	26,550	27,702
Infection Control	-	20,704
Better Care Fund	17,099	17,304
COVID-19	16,297	19,712
Control Outbreak Management Funding	-	13,149
Pupil Premium	8,748	8,686
Disabled Facilities	7,160	8,124
Private Finance Initiative	4,755	4,755
Adult Social Care Reform	4,417	6,277
Teachers' Pension	3,591	6,211
Universal Infant Free School Meals	3,364	3,626
16-19 Sixth Form	3,321	3,322
Test and Trace	-	2,535
Winter Pressures	2,401	-
Opportunity Areas	2,200	1,250
PE & Sport	2,073	2,033
Teachers Pay	1,861	2,128
Unaccompanied Asylum Seeking Children	1,612	2,471
Other Grants	13,221	20,162
<b>Total</b>	<b>344,315</b>	<b>404,456</b>

**Notes** – Details of the Dedicated Schools Grant figure are included in Note 36 below. Council Tax and Business Rates figures include share of Collection fund surplus or deficits.

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 2020 £000	31 March 2021 £000
<b>Current Liabilities – Receipts in Advance</b>		
Revenue Grants & Contributions*	8,328	2,780
<b>Long Term Liabilities – Receipts in Advance</b>		
Capital Grants & Contributions	9,551	15,412

\*The balance of revenue grants and contributions as at 31 March 2020 has been restated as the figure had been omitted from the prior year accounts. Of the balance of £8.328m as at 31 March 2020, £5.167m related to section 31 Business Rates grants.

### 36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Education and Skills Funding Agency to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2018. The Schools Budget includes elements for a range of educational 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 2020/21 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2020/21 before Schools Block Academy recoupment	79,465	307,412	386,877
Academy figure recouped for 2020/21	-	(152,571)	(152,571)
<b>Total DSG after Academy recoupment for 2020/21</b>	<b>79,465</b>	<b>154,841</b>	<b>234,306</b>
Plus: Brought Forward from 2019/20	6,181	-	6,181
Less: Carry forward to 2021/22 agreed in advance	(5,576)	-	(5,576)
<b>Agreed initial budgeted distribution in 2020/21</b>	<b>80,070</b>	<b>154,841</b>	<b>234,911</b>
Less: Actual central expenditure	(67,934)	-	(67,934)
Less: Actual ISB deployed to schools	-	(154,841)	(154,841)
<b>Carry forward to 2021/22</b>	<b>12,136</b>	<b>-</b>	<b>12,136</b>

### School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2020/21 was £154.8m. Schools carried forward (reserve) a net total of £20.5m (13.2%) at the end of the financial year at 31 March 2021, which was an increase of £0.55m compared to 31 March 2020. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
<b>All schools with surpluses</b>					
Number of schools	No.	111	9	1	121
Total surplus	£000	15,046	5,270	196	20,512
<b>All schools with deficits</b>					
Number of schools	No.	-	-	-	-
Total deficit	£000	-	-	-	-
<b>Carry forward</b>	<b>£000</b>	<b>15,046</b>	<b>5,270</b>	<b>196</b>	<b>20,512</b>
Less: Capital Loan to Schools	£000	-	-	-	-
<b>Net carry forward</b>	<b>£000</b>	<b>15,046</b>	<b>5,270</b>	<b>196</b>	<b>20,512</b>

This reserve represents unspent balances remaining at the year-end against school's delegated budgets. The main reasons why schools hold balances are - anticipation of future budget pressures usually arising from pupil variation, to fund specific projects such as building work and IT and to hold a contingency for reasons of prudence. These balances are committed to be spent on the education service and are not available to the Council for general use.

### 37. 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

UK 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 35 on reporting for resources allocation decisions, and further details are shown in Note 35. Grant receipts in advance at 31 March 2021 are shown in Note 35.

#### Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The Register of Members' Interests is held at County Hall, Lewes, and is open to public inspection. The total of members' allowances paid in 2020/21 is shown in Note 31. None of Members or Chief Officers had control or influence in any related party transactions during the year.

During 2020/21, works and services to the value of £0.036m were commissioned from a company in which the Chief Operating Officer had an interest. The contracts were commissioned prior to the Chief Operating Officer commencing his employment with East Sussex County Council, they were entered into in full compliance with the Council's standing orders and the Chief Operating Officer played no part in the decision making process to procure these services.

A survey of the related party interests of members and their immediate family members was carried out in preparing this Statement of Accounts. Interests were declared within the Register of Members' Interests by members who held positions with organisations that have transacted with the Council during the year, which include –

- Director and Member of Woodland Enterprise Centre. In 2020/21, goods and services to the value of £0.023m were commissioned from this entity.
- Chairman and Member of Ashdown Forest Trust. In 2020/21, rents of the golf course to the value of £0.070m were paid to this entity.

#### Entities that are controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 46), for the balances held by the Council at 31 March 2021.

#### East Sussex Pension Fund

The East Sussex Pension Fund is administered by East Sussex County Council. The Treasurer of the Pension Fund and members of the County Council have no material transactions with the Pension Fund. The Council incurred costs in administering the fund and charged £1.9m to the fund in 2020/21 (£1.2m in 2019/20). The Council's contribution to the fund was £43.2m in 2020/21 (£42.5m in 2019/20).

#### East Sussex Fire Authority

East Sussex County Council provides financial services to the East Sussex Fire Authority. The arrangement has been in operation since 1997. The services provided include accounts payable, accounts receivable, payroll, pension administration, treasury management, accountancy and internal audit. The cost of these services was £0.232m in 2020/21 (£0.280m in 2019/20).

#### Other Public Bodies

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

The Council is aware that the following entities do not meet the requirements of IAS 24 Related Party Disclosures. For transparency and for members of the public to understand the relationships held, this has been disclosed.

East Sussex County Council have 19% of the voting rights for Woodland Enterprises Ltd. The High Weald Unit of the Economy, Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd during 2020/21. There were no long term debts to the company at 31 March 2021.

Sea Change Sussex (SCS) is a company limited by guarantee and is a key delivery partner for the County Council. Hastings Borough Council, Rother District Council and the County Council together hold 19.9% of the company, University of Brighton 30.1% and local businesses the remaining 50%. The County Council has appointed the Lead Cabinet Member for Economy as a Director of the Company. SCS is a not-for-profit economic development and regeneration company, working to expand the area's economy and business community by working with the County Council and other key partners.

The High Weald AONB is managed by a Joint Advisory Committee. The committee membership includes 16 principal partners and funding members (Natural England plus 15 local authorities whose area is covered by the High Weald AONB designation) and 5 advisory partners and non-funding members co-opted from forum member organisations. East Sussex County Council is a principal partner and funding member.

### 38. 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.

	2019/20 £000	2020/21 £000
<b>Opening Capital Financing Requirement</b>	<b>329,085</b>	<b>342,222</b>
Property, Plant and Equipment	78,852	58,694
Investment Properties	2	4
Intangible assets	1,971	577
Capital Loans	-	652
Heritage assets	-	-
Revenue Expenditure Funded from Capital under Statute	13,032	12,418
<b>Total capital investment</b>	<b>93,857</b>	<b>72,345</b>
Capital receipts	(3,122)	-
Government grants and contributions	(62,603)	(65,938)
Revenue financing	(4,618)	(6,407)
<b>Total financing other than from loans</b>	<b>(70,343)</b>	<b>(72,345)</b>
Long Term capital debtors	130	(83)
<b>Net investment financed from loans</b>		
Minimum Revenue Provision (MRP) for the repayment of loans	(10,507)	(7,004)
<b>Closing Capital Financing Requirement</b>	<b>342,222</b>	<b>335,135</b>
<b>Explanation of movements in year</b>		
Increase/(decrease) in underlying need to borrow, that is not supported by government financial assistance	<b>13,137</b>	<b>(7,087)</b>



**39. Leases****Authority as Lessee**

**Finance Leases** - As at 31 March 2021, the Council has no assets classed as finance leases. There are 10 properties on the Balance Sheet which are valued as long leasehold however these properties do not have a corresponding liability on the Balance Sheet.

**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 minimum lease payments payable in future years are:

	31 March 2020	31 March 2021
	£000	£000
Not later than one year	2,822	2,793
Later than one year and not later than five years	6,613	5,329
Later than five years	6,645	6,346
<b>Total</b>	<b>16,080</b>	<b>14,468</b>

The expenditure charged to Net Cost of Services during the year in relation to these leases was:

	2019/20	2020/21
	£000	£000
Land and Buildings	2,051	2,273
Schools	825	725
Vehicles	71	325
<b>Total</b>	<b>2,947</b>	<b>3,323</b>

Other payments for the renting and hiring of facilities in 2020/21 was £0.128m (£0.128m 2019/20).

**Authority as Lessor**

**Finance Leases** - As at 31 March 2021, the Council has no assets classed as finance leases.

**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 2020	31 March 2021
	£000	£000
Not later than one year	1,896	1,674
Later than one year and not later than five years	3,786	4,032
Later than five years	7,718	5,688
<b>Total</b>	<b>13,400</b>	<b>11,394</b>

The total income received from leasing, renting and hiring of facilities in 2020/21 was £1.638m (£2.068m 2019/20).

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2020	31 March 2021
	£000	£000
Long Term PFI Liabilities	66,973	66,347
Financial Guarantees	60	60
Long Term Creditors	18	162
<b>Total</b>	<b>67,051</b>	<b>66,569</b>

**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.

**Waste PFI**

In conjunction with Brighton and Hove City Council, the Council jointly entered into a 25 year agreement, on the 31 March 2003, for the provision of an integrated waste management service with South Downs Waste Services Ltd. In 2009/10 the agreement extended by a further 5 years to 31 March 2033.

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

Peacehaven Schools PFI	Telscombe Cliffs £000	Meridian £000	Peacehaven Heights £000	Total £000
<b>1 April 2020 (restated)*</b>	<b>6,775</b>	<b>3,359</b>	<b>5,107</b>	<b>15,241</b>
Additions	20	58	9	87
Revaluations	(1,043)	2,409	(1,890)	(524)
Depreciation	(247)	(171)	(232)	(650)
Disposals	-	-	-	-
<b>31 March 2021</b>	<b>5,505</b>	<b>5,655</b>	<b>2,994</b>	<b>14,154</b>

\*The 1 April 2020 opening balance for Meridian PFI school has been restated from £0.232m closing balance in the 2019/20 accounts to include the full asset value of the school.

Waste PFI	Hollingdean WTS & MRF £000	Maresfield WTS & HWRS £000	Whitesmith Composting Facility £000	Newhaven Energy Recovery Facility £000	Pebsham HWRS £000	Total £000
<b>1 April 2020</b>	<b>6,802</b>	<b>7,047</b>	<b>14,542</b>	<b>26,517</b>	<b>463</b>	<b>55,371</b>
Revaluations	1,715	(4,007)	1,423	(10,630)	34	(11,465)
Depreciation	(385)	(324)	(657)	(1,196)	(23)	(2,585)
<b>31 March 2021</b>	<b>8,132</b>	<b>2,716</b>	<b>15,308</b>	<b>14,691</b>	<b>474</b>	<b>41,321</b>

**Notes:**

- (i) Land values are excluded from the schools and waste PFI accounting models with the exception of the Whitesmith Composting Facility;

**Details of payments to be made under PFI contracts****Waste PFI**

Based on a projected 2.5% annual inflation rate the details of the payments due to be made are detailed below:

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Lifecycle Maintenance	Total
	£000	£000	£000	£000	£000	£000
Within 1 year: 2021/22	3,678	3,433	17,358	3,120	-	27,589
Within 2 to 5 years: 2022/23 to 2025/26	17,218	11,626	75,028	15,311	-	119,183
Within 6 to 10 years: 2026/27 to 2030/31	28,295	8,641	106,477	25,607	-	169,020
Within 11 to 12 years: 2031/32 to 2032/33	13,885	1,157	46,758	12,394	-	74,194
<b>Total</b>	<b>63,076</b>	<b>24,857</b>	<b>245,621</b>	<b>56,432</b>	<b>-</b>	<b>389,986</b>

**Peacehaven Schools PFI**

Based on actual inflation to 31 March 2021, 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	Lifecycle Maintenance	Total
	£000	£000	£000	£000	£000	£000
Within 1 year: 2021/22	1,217	800	1,791	913	384	5,105
Within 2 to 5 years: 2022/23 to 2025/26	6,186	1,886	7,717	4,148	1,654	21,591
Within 6 years: 2026/27	763	75	865	485	185	2,373
<b>Total</b>	<b>8,166</b>	<b>2,761</b>	<b>10,373</b>	<b>5,546</b>	<b>2,223</b>	<b>29,069</b>

Operational PFI contracts are 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 2021 is £71.2m (£63m for Waste PFI, and £8.2m for Peacehaven Schools PFI), and as at 31 March 2020 was £71.7m (£62.4m for Waste PFI, and £9.3m for Peacehaven Schools PFI).

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. In all cases the authority has the right to use the assets provided by the PFI contractor and is entitled to receive the services specified within each contract. Each of the PFI contracts contain a payment mechanism whereby the authority only pays for the services it receives. On expiry of the contracts, the assets created under the PFI arrangements automatically revert to the authority at nil consideration. Termination of the contracts prior to the expiry is permitted by either party but only in exceptional circumstances and only after a period of negotiation. There have been no material changes to any of the PFI contracts in the reporting period.

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, the total value of the liability and an analysis of movement in those values is shown below.

	Waste PFI	Schools PFI	Total	Included in Short Term Creditors	Included in Long term Liabilities
	£000	£000	£000	£000	£000
<b>Balance outstanding at 1 April 2020</b>	<b>62,391</b>	<b>9,274</b>	<b>71,665</b>	<b>4,692</b>	<b>66,973</b>
Lease principal repayment	685	(1,108)	(423)	203	(626)
<b>Balance outstanding at 31 March 2021</b>	<b>63,076</b>	<b>8,166</b>	<b>71,242</b>	<b>4,895</b>	<b>66,347</b>

**41. Pensions Schemes Accounted for as Defined Contribution Schemes****Teachers' Pension Scheme**

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 2020/21 the Council incurred a total of £17.7m payable to Teachers Pensions Scheme in respect of teacher's pension costs, which represents 23.68% of teacher's pensionable pay. In addition the Council is responsible for all pension payments related to added years it has awarded, together with the related increase which amounted to £3.17m. These figures compare to an amount of £15.5m payable in 2019/20 (16.48% of pensionable pay) and £2.4m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, Teachers Pensions Scheme 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.

As at March 2021, the Council owed £2.08m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£2.0m at March 2020). 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 42.

**NHS Pension Scheme**

In 2013/14, NHS staff transferred to the Council. These employees have maintained their membership of 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 pay.

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 2020/21, the Council incurred a total of £0.14m payable to the NHS Pension Scheme in respect of former NHS staff retirement benefits, and there was £0.021m contributions remaining payable at the year end. This compares to an amount of £0.139m payable in 2019/20.

**42. 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 three schemes, the Local Government Pension Scheme, the Teachers' Pension Scheme and the NHS 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** - the cost of retirement benefits is recognised 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:

**Comprehensive Income and Expenditure Statement**

Cost of Services:

Service Cost Comprising:

- current service cost
- past service costs

*Financing and Investment Income and Expenditure*

Net interest expense

**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**

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)
- Actuarial gains and losses arising on changes in demographic assumptions
- Actuarial gains and losses arising on changes in financial assumptions
- Other (if applicable)

**Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement**

**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

Actual amount charged against the General Fund Balance for pensions in the year:

**Employers' contributions payable to the scheme**

2019/20 £000	2020/21 £000
67,211	80,008
474	-
12,859	11,413
<b>80,544</b>	<b>91,421</b>
146,603	(245,682)
(50,573)	(27,187)
(159,336)	384,767
(81,217)	(22,703)
<b>(63,979)</b>	<b>180,616</b>
104,544	(142,514)
<b>40,565</b>	<b>38,102</b>

**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:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,671,821)	(1,691,088)	(1,890,390)	(1,666,341)	(2,066,436)
Fair value of plan assets in the Local Government Pension Scheme	1,256,670	1,281,300	1,368,978	1,249,473	1,507,054
<b>Deficit in the scheme: Local Government Pension Scheme</b>	<b>(415,151)</b>	<b>(409,788)</b>	<b>(521,412)</b>	<b>(416,868)</b>	<b>(559,382)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £2,066.4m (£1,666.3m in 2019/20) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £559.4m (£416.9m in 2019/20).

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 2022 is 17.6% of payroll plus monetary amounts of £5.568m.

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

	<b>2019/20 £000</b>	<b>2020/21 £000</b>
<b>Opening balance at 1 April:</b>	<b>1,890,390</b>	<b>1,666,341</b>
Current Service Cost	67,211	68,452
Interest Cost	45,700	31,205
Contributions by scheme participants	9,153	9,818
Re-measurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	(50,573)	(27,187)
• Actuarial gains/losses arising from changes in financial assumptions	(159,336)	384,767
• Other	(81,217)	(22,703)
Past Service Cost	474	405
Benefits paid	(49,846)	(48,200)
Liabilities extinguished on settlements		8,592
Unfunded Benefits paid	(5,615)	(5,054)
<b>Closing balance at 31 March</b>	<b>1,666,341</b>	<b>2,066,436</b>

**Reconciliation of fair value of the scheme assets:**

	<b>2019/20 £000</b>	<b>2020/21 £000</b>
<b>Opening fair value of scheme asset at 1 April:</b>	<b>1,368,978</b>	<b>1,249,473</b>
Interest Income	32,841	19,792
Re-measurement gain / (loss):		
• The return on plan assets, excluding the amount included in the net interest expense	(146,603)	245,682
• Other	-	-
Contributions from employer	40,565	38,102
Contributions from employees into the scheme	9,153	9,818
Benefits paid	(49,846)	(53,254)
Unfunded benefits paid	(5,615)	(2,559)
<b>Closing fair value of scheme assets at 31 March</b>	<b>1,249,473</b>	<b>1,507,054</b>

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 interest income on plan assets in the year was £19.79m (£32.84m in 2019/20).

**Local Government Pension Scheme assets comprised:****Cash and cash equivalents****Bonds:**

By sector

- Government
- Other

**Sub-total bonds****Private equity:**

All

Overseas

**Sub-total private equity****Other investment funds:**

- UK Property
- Overseas Property

**Sub-total other investment funds****Investment funds and unit trusts:**

- Equities
- Bonds
- Infrastructure
- Other

**Sub-total Investment funds and unit trusts****Total assets**

Fair value of scheme assets 2019/20 £000	%	Fair value of scheme assets 2020/21 £000	%
23,100	2	21,099	1
-	-	46,719	3
11,026	1	-	-
11,026	1	46,719	3
82,369	7	123,578	8
-	-	-	-
82,369	7	123,578	8
114,692	9	113,029	8
-	-	-	-
114,692	9	113,029	8
424,115	33	669,132	44
214,759	17	159,748	11
22,692	2	4,521	-
356,720	29	369,228	25
1,018,286	81	1,202,629	80
1,249,473	100	1,507,054	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 Barnett Waddingham, an independent firm of actuaries, based on the calculations in the latest full valuation of the scheme as at 31 March 2020 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:

**Mortality assumptions:**

Longevity at 65 for current pensioners

Men

Women

Longevity at 65 for future pensioners

Men

Women

Rate of increase in salaries

Rate of inflation/increase in pensions

Rate for discounting scheme liabilities

2019/20	2020/21
21.6	21.1
23.9	23.7
22.5	21.9
25.3	25.0
1.9%	2.8%
1.9%	2.8%
2.3%	2.0%

The mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI\_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI.

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 and 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.

**Change in assumptions at 31 March 2021:**

0.1% decrease in Real Discount Rate  
 0.1% increase in the Salary Increase Rate  
 0.1% increase in the Pension Increase Rate  
 1 year increase to life expectancy assumptions

Impact on the Defined Benefit Obligation in the Scheme	
Approximate increase to Employer	Approximate monetary amount
%	£000
2	38,872
-	2,287
2	36,242
5	100,547

At 31 March 2021, the Council owed £3.58m (£3.49m 31 March 2020) 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 2020, can be found on pages 106 to 140.

**Impact on the Authority's Cash Flows**

The objectives of the scheme are set out in East Sussex Pension Fund's Funding Strategy Statement (FSS), dated March 2020. In summary, these are;

- to ensure the long-term solvency of the Fund;
- 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;
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk from an employer defaulting on its pension obligations.

The funding level for the Fund is monitored on a regular basis. The next triennial valuation is due to be completed on 31 March 2022.

The contributions paid by the Employer are set by the Fund Actuary at each triennial actuarial valuation or at any other time as instructed to do so by the Fund. The contributions payable over the period to 31 March 2022 are set out in the Rate and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Employer, please refer to the 2019 actuarial valuation report (link below) dated March 2020.

<https://www.eastsussex.gov.uk/yourcouncil/pension-fund-financial-reports-and-accounts/>

The weighted average duration of the defined benefit obligation for scheme members as at the date of the 2019 valuation was 17.4 years.

**43. Contingent Liabilities**

The Ministry of Housing, Communities and Local Government (MHCLG) has published a consultation on draft regulations to end age discrimination in public sector pensions. The discrimination was identified by the 2019 Supreme Court verdict in the McCloud case brought by judges and firefighters. MHCLG has published a consultation to rectify the situation after the Treasury released proposals for other public sector pension schemes, which operate differently to the Local Government Pension Scheme (LGPS). The 2015 reforms moved public sector pensions from a final salary to career average calculation of pension benefits. However, the LGPS provided an "underpin" mechanism ensuring that members within 10 years of their retirement would not lose out on their expected benefits. After the judge in the McCloud case ruled the special measures for older scheme members were discriminatory, the MHCLG is now proposing to extend the underpin to all scheme members who joined the LGPS 2012. The consultation proposes that the amended regulations will apply retrospectively from 1 April 2014.

**44. Contingent Assets**

The council is part of a class action, led by the Local Government Association, against a number of vehicle manufacturers which it is alleged have participated in price fixing across Europe. The council has bought many of its vehicles outright over many years. It is not yet possible to assess the likelihood of success or quantify any potential financial recompense. The council has no liability in relation to any potential costs if the claim is lost as it has entered into an insurance arrangement negotiated by the LGA and involving, with a large number of other claimants.



**45. Nature and extent of risks arising from Financial Instruments**

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 requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

**Overall procedures for managing risk**

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services 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 CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations, standing orders and constitution;
- 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 the maturity structure of its debt;
  - ❖ Its management of interest rate exposure;
  - ❖ 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 government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. 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 after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 11 February 2020 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2020/21 was set at £425m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was expected to be £405m. This is the expected level of debt and other long-term liabilities during the year;
- The maximum amounts of fixed and variable 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 (see table below).

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides 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.

**1. Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which is available on the authority's website.

There are significant financial risks of COVID-19 that will be felt into 2021/22 and later years due to the uncertainty surrounding its impact on residents and Council Tax collection rates, the slowdown in house building and the reduction in the Council Tax base and income and on businesses and Business Rates collection rates.

**Credit Risk Management Practices**

The Council's credit risk management practices are set out in the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below:

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

The full Investment Strategy for 2020/21 was approved by Full Council on 11 February 2020 and is available on the Council's website.

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 ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £288m 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 2021 that this was likely to crystallise.

#### Amounts Arising from Expected Credit Losses (ECL)

The changes in loss allowance during the year are as follows:

	12 Month ECL	Lifetime ECL	Lifetime ECL – Simplified Approach	Total
	£000	£000	£000	£000
<b>Opening balance 1 April 2020</b>	<b>33</b>	<b>117</b>	<b>1,587</b>	<b>1,737</b>
Change in credit loss	(10)	36	(78)	(52)
<b>Closing balance 31 March 2021</b>	<b>23</b>	<b>153</b>	<b>1,509</b>	<b>1,685</b>

12 Month ECL includes some third party loan and investment balances. Lifetime ECL includes some third party loans and treasury investments. Lifetime ECL simplified includes debtor balances.

#### Collateral

During the reporting period the council held no collateral as security.

## 2. 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 CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. 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, excluding sums due from customers £12.29m at 31 March 2021 (£12.57m 31 March 2020), is as follows:

	31 March 2020	31 March 2021
	£000	£000
Less than one year	215,862	290,921
Between one and two years	29,454	24,355
<b>Total</b>	<b>245,316</b>	<b>315,276</b>

### 3. 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 treasury 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 is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period approved by Council in the Treasury Management Strategy:

	Approved Minimum Limit	Approved Maximum Limit	31 March 2020	31 March 2021
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	107,640	88,931
Between one and two years	0%	40%	5,568	17,303
Between two and five years	0%	60%	31,844	32,470
Between five and ten years	0%	70%	54,775	59,648
More than ten years	0%	90%	199,887	190,128
<b>Total</b>			<b>399,714</b>	<b>388,480</b>

### 4. Market risk

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2021, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	735
Impact on Comprehensive Income and Expenditure	<u>735</u>

#### Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

The Council has a 19% voting rights interest in Woodland Enterprises Ltd, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The net assets of the company at 31 March 2020 were £276,916 (£343,404 at 31 March 2019).

The legal liability of the County Council is limited to £4 between its four guarantors. 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.

The Council does hold £5m in a property asset fund, and its price varies. The fair value at 31 March 2021 is £4.5m. However, any movement in price will not impact on the General Fund Balance as regulations are in force to ameliorate the impact of fair value movements.

#### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

**46. 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:

- East Sussex Music Trust: for the provision of music education opportunities for children and young people in East Sussex;
- 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 Trust: a registered charity that was set up by a declaration of trust in 1988. The Council is trustee and agrees grants made to the Ashdown Forest conservators, from the Ashdown Forest Trust Fund. An independent examination of the Trust Fund accounts is provided by external auditors.
- Performing Arts Centre, Lewes: the centre is leased to the Council by East Sussex College as trustee of the East Sussex Music Trust.

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

	2020/21			
	Opening Balance £000	Expenditure £000	Income £000	Closing Balance £000
<b>Sole trustee funds</b>				
East Sussex Music Trust	(32)	-	-	(32)
Robertsbridge Youth Centre	(107)	-	-	(107)
Lewes Educational Charity	(62)	-	-	(62)
Heathfield Youth Centre	(58)	-	(1)	(59)
How Scholarship	(5)	-	-	(5)
Wright Legacy	(2)	-	-	(2)
<b>Total sole trustee funds</b>	<b>(266)</b>	<b>-</b>	<b>(1)</b>	<b>(267)</b>
<b>Comforts funds</b>	<b>(37)</b>	<b>6</b>	<b>(6)</b>	<b>(37)</b>
<b>Total trust funds</b>	<b>(303)</b>	<b>6</b>	<b>(7)</b>	<b>(304)</b>
 Ashdown Forest Trust	 <b>(1,353)</b>	 -	 -	 <b>(1,353)</b>
Performing Arts Centre, Lewes	<b>(524)</b>	16	-	<b>(508)</b>

\*Restated opening balance due to an incorrect brought forward balance in the prior year

**47. 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 under restoration. 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 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 potential 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, the Council 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 2021, the liability had reduced to £9.16m (£9.30m at 31 March 2020).

The Council own the freehold or part freehold of eight of the nineteen sites and in accordance with IAS 16 Property, Plant & Equipment and the Council's own accounting policy (see accounting policy xxi on page 41), has recognised the land value in the Balance Sheet. Four of the sites are located on land included elsewhere in the Council's Balance Sheet and the remaining four sites are valued separately as Property, Plant & Equipment at £1.2m at 31 March 2021 (£1.3m at 31 March 2020).

## East Sussex Pension Fund Accounts

### Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 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, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate 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.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 127 participating employers. A full list of participating employers is given at note 29.

### Administering Authority Responsibilities

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

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund's external investment managers.

The County Council entered into a partnership arrangement with Surrey County Council and Brighton and Hove City Council to provide back office support under the umbrella of Orbis. The day to day functions of managing the governance and administration of the Fund are managed within the Orbis framework. The main services provided by within this include governance, investment, maintenance of scheme members' records, calculation and payment of retirement benefits including early retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund's Actuary.

Although the day to day work associated with governance and administering the Fund are under the Orbis umbrella. The County Council retains responsibility for the functions of the Fund and all decision making authority for the Fund resides with the East Sussex Pension Committee. The County Council ensures that all the participating employers within the Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2019 and the next triennial valuation is due in 2022.

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

### Asset Pools

The East Sussex Pension Fund has joined with 10 other Local Government Pension Schemes (LGPS) Administering Authorities to form the ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pool. The other members of the ACCESS Pool are:

- |                   |                     |                   |
|-------------------|---------------------|-------------------|
| 1. Cambridgeshire | 5. Norfolk          | 8. Hertfordshire  |
| 2. Kent           | 6. Essex            | 9. Suffolk        |
| 3. Hampshire      | 7. Northamptonshire | 10. Isle of Wight |
| 4. West Sussex    |                     |                   |

At the 30 March 2020 collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority established in 2017. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

## ***East Sussex Pension Fund Accounts***

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Section 151 Officers Group, Officer Working Group and the ACCESS Support Unit. More information on the ACCESS pool can be found on their website <https://www.accesspool.org/>.

DRAFT

East Sussex County Council



**Net Assets Statement for the year ended 31 March 2021**

31 March 2020 £000		Notes	31 March 2021 £000
3,401,666	Investment assets	14	4,173,990
340	Other Investment balances	21	357
(475)	Investment liabilities	22	(775)
63,715	Cash deposits	14	56,736
<b>3,465,246</b>	<b>Total net investments</b>		<b>4,230,308</b>
16,622	Current assets	21	15,675
(2,774)	Current liabilities	22	(1,948)
<b>3,479,094</b>	<b>Net assets of the fund available to fund benefits at the year end.</b>		<b>4,244,035</b>

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 20.

## 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 2021 and of the movements for the year then ended.

**Ian Gutsell**

Chief Finance Officer (Section 151 Officer)

Business Services Department

30 September 2021

## Notes to the East Sussex Pension Fund Accounts

### 1: Description of 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 Scheme Manager"). The County Council is the reporting entity for this pension fund.

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 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund 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.

The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and the Fund and its advisers meet regularly with the investment managers to monitor their performance against agreed benchmarks.

#### 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.

## Notes to the East Sussex Pension Fund Accounts

There are 127 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	128	127
<b>Number of employees</b>		
County Council	7,980	8,163
Other employers	15,855	16,839
<b>Total</b>	<b>23,835</b>	<b>25,002</b>
<b>Number of pensioners</b>		
County Council	9,500	9,805
Other employers	11,835	12,425
<b>Total</b>	<b>21,335</b>	<b>22,230</b>
<b>Deferred pensioners</b>		
County Council	13,860	13,805
Other employers	17,762	17,429
<b>Total</b>	<b>31,622</b>	<b>31,234</b>
<b>Total number of members in pension scheme</b>	<b>76,792</b>	<b>78,466</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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 Website.

## 2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

There were no amendments for 2020/21 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Policy Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from <https://www.eastsussexpensionfund.org/>

ACCESS Pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so there is no investment balance to carry forward in the net asset statement.

# Notes to the East Sussex Pension Fund Accounts

## 3: Summary of significant accounting policies

### Fund account – revenue recognition

#### a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for 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.

##### 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) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

##### i) Administrative expenses

All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

##### ii) Oversight and governance costs

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

## Notes to the East Sussex Pension Fund Accounts

### iii) Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

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.

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2020/21, £0.8m of fees is based on such estimates (2019/20: £0.3m).

### Net assets statement

#### g) Financial assets

All investment assets are included in the financial statements 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 the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

#### h) 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.

#### i) 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.

#### j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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.

#### k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

#### l) 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 the Code, 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 20).

#### m) 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 Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

## Notes to the East Sussex Pension Fund Accounts

### n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

### 4: Critical judgements in applying accounting policies

#### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2021 was £265 million (£229 million at 31 March 2020).

#### 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 is 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 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### Use of Financial Instruments

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	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. As a result of Coronavirus pandemic there is an increase in the uncertainty around the mortality provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. 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 2019 Valuation the actuary advised that: <ul style="list-style-type: none"> <li>A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%).</li> <li>A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%).</li> <li>A 0.25% change in mortality rates would increase the liability by approximately £25 million (0.7%).</li> </ul>
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). 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 £265.0 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. The sensitivity of this figure is discussed further in Note 16 and Note 18.

### 6: Events after the balance sheet date

There have been no events since 31 March 2021, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## Notes to the East Sussex Pension Fund Accounts

### 7: Contributions Receivable

	2019/20 £000	2020/21 £000
<b>By category</b>		
Employee's contributions	31,403	31,435
Employer's contributions		
Normal contributions	80,302	83,643
Deficit recovery contributions	17,662	15,336
Augmentation contributions	1,054	1,063
<b>Total</b>	<b>130,421</b>	<b>131,477</b>
<b>By authority</b>		
Scheduled bodies	83,613	84,803
Admitted bodies	4,303	3,653
Administrative Authority	42,505	43,021
<b>Total</b>	<b>130,421</b>	<b>131,477</b>

### 8: Transfers in from other pension funds

	2019/20 £000	2020/21 £000
Group transfers	-	-
Individual transfers	8,298	6,044
<b>Total</b>	<b>8,298</b>	<b>6,044</b>

### 9: Benefits payable

	2019/20 £000	2020/21 £000
<b>By category</b>		
Pensions	104,544	108,927
Commutation and lump sum retirement benefits	18,555	17,194
Lump sum death benefits	2,571	2,586
<b>Total</b>	<b>125,670</b>	<b>128,707</b>
<b>By authority</b>		
Scheduled bodies	73,625	76,492
Admitted bodies	3,690	3,781
Administrative Authority	48,355	48,434
<b>Total</b>	<b>125,670</b>	<b>128,707</b>

### 10: Payments to and on account of leavers

	2019/20 £000	2020/21 £000
Refunds to members leaving service	389	242
Group transfers	-	-
Individual transfers	8,207	5,319
<b>Total</b>	<b>8,596</b>	<b>5,561</b>

# Notes to the East Sussex Pension Fund Accounts

## 11: Management expenses

	2019/20	2020/21
	£000	£000
Administrative costs	1,106	1,680
Investment management expenses	15,019	13,785
Oversight and governance costs	1,208	1,831
<b>Total</b>	<b>17,333</b>	<b>17,296</b>

### 11a: Investment management expenses

	2020/21	Total	Management Fees	Performance Related Fees	Transaction costs*
		£000	£000	£000	£000
Bonds		38	14	-	24
Equities		802	113	-	689
<b>Pooled investments</b>					
Fixed Income		1,769	1,769	-	-
Equity		2,872	2,593	-	279
Diversified growth funds		3,373	3,373	-	-
Pooled property investments		1,307	1,307	-	-
Private equity / infrastructure		3,563	3,563	-	-
		<b>13,724</b>	<b>12,732</b>	<b>-</b>	<b>992</b>
<b>Custody</b>		<b>61</b>			
<b>Total</b>		<b>13,785</b>			

\*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

	2019/20	Total	Management Fees	Performance Related Fees	Transaction costs*
		£000	£000	£000	£000
Bonds		18	18	-	-
Equities		-	-	-	-
Diversified growth		2,131	1,942	-	189
<b>Pooled investments</b>					
Fixed Income		1,298	1,298	-	-
Equity		1,843	1,843	-	-
Diversified growth funds		2,876	2,846	-	30
Pooled property investments		1,652	1,652	-	-
Private equity / infrastructure		5,147	5,147	-	-
		<b>14,965</b>	<b>14,746</b>	<b>-</b>	<b>219</b>
<b>Custody</b>		<b>54</b>			
<b>Total</b>		<b>15,019</b>			

\*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2020/21 of £2.2m (£3.7m in 2019/20) on its private equity investments, fees of £1.1m (£1.3m in 2019/20) on its infrastructure investments, fees of £5.1m (£2.6m in 2019/20) on investments in the ACCESS Pool and fees of £1.9m (£3.0m in 2019/20) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.



## Notes to the East Sussex Pension Fund Accounts

### 12: Investment income

	2019/20	2020/21
	£000	£000
Income from bonds	154	122
Income from equities	1,507	654
Private equity/Infrastructure income	1,531	1,458
Pooled property investments	11,972	9,584
Pooled investments - unit trusts and other managed funds	10,705	25,402
Interest on cash deposits	673	1,869
Class Actions	4	-
<b>Total</b>	<b>26,546</b>	<b>39,089</b>

### 13: Other fund account disclosures

#### 13a: Taxes on income

	2019/20	2020/21
	£000	£000
Withholding tax – equities	(59)	(19)
<b>Total</b>	<b>(59)</b>	<b>(19)</b>

#### 13b: External audit costs

	2019/20	2020/21
	£000	£000
Payable in respect of external audit for 2018/19	3*	-
Payable in respect of external audit for 2019/20	27	5**
Payable in respect of external audit for 2020/21	-	35
Payable in respect of other services	5	5
<b>Total</b>	<b>35</b>	<b>45</b>

\*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

\*\* The final fee for 2019/20 was agreed after the audit opinion was received for 2019/20

### 14: Investments

	2019/20	2020/21
	£000	£000
<b>Investment assets</b>		
Bonds	212,331	128,765
<b>Pooled Investments</b>		
Fixed Income	413,943	485,996
Equity	1,332,597	1,864,834
Diversified growth funds	833,253	1,002,298
Pooled property investments	318,129	319,533
Private equity/infrastructure	291,413	372,564
<b>Derivative contracts:</b>		
Forward Currency Contracts	-	-
	<b>3,401,666</b>	<b>4,173,990</b>
Cash deposits with Custodian	63,715	56,736
Other Investment balances (Note 21)	340	357
<b>Total investment assets</b>	<b>3,465,721</b>	<b>4,231,083</b>
Investment Liabilities (Note 22)	(475)	(775)
<b>Derivative contracts:</b>		
Forward Currency Contracts	-	-
<b>Total Investment Liabilities</b>	<b>(475)</b>	<b>(775)</b>
<b>Net investment assets</b>	<b>3,465,246</b>	<b>4,230,308</b>

## Notes to the East Sussex Pension Fund Accounts

### 14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2020	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 2021
	£000	£000	£000	£000	£000
Bonds	212,331	-	(92,246)	8,680	128,765
Equities	-	618,587	(534,059)	(84,528)	-
Pooled investments	2,579,793	253,354	(246,139)	766,120	3,353,128
Pooled property investments	318,129	11,928	(9,059)	(1,465)	319,533
Private equity/infrastructure	291,413	77,295	(47,943)	51,799	372,564
	<b>3,401,666</b>	<b>961,164</b>	<b>(929,446)</b>	<b>740,606</b>	<b>4,173,990</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	-	575	(162)	(413)	-
	<b>3,401,666</b>	<b>961,739</b>	<b>(929,608)</b>	<b>740,193</b>	<b>4,173,990</b>
<b>Other investment balances:</b>					
■ Cash deposits	63,715			(279)	56,736
■ Other Investment Balances	340				357
■ Investment Liabilities	(475)				(775)
<b>Net investment assets</b>	<b>3,465,246</b>			<b>739,914</b>	<b>4,230,308</b>

	Market value 1 April 2019	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 2020
	£000	£000	£000	£000	£000
Bonds	499,750	68,143	(379,592)	24,030	212,331
Equities	153,695	81,336	(244,125)	9,094	-
Pooled investments	2,232,435	1,055,608	(493,067)	(215,183)	2,579,793
Pooled property investments	339,442	10,551	(15,342)	(16,522)	318,129
Private equity/infrastructure	245,135	57,631	(41,228)	29,875	291,413
Commodities	6,125	992	(7,925)	808	-
Multi Asset	2,342	6,030	(7,534)	(838)	-
	<b>3,478,924</b>	<b>1,280,291</b>	<b>(1,188,813)</b>	<b>(168,736)</b>	<b>3,401,666</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	(415)	12,995	(12,095)	(485)	-
	<b>3,478,509</b>	<b>1,293,286</b>	<b>(1,200,908)</b>	<b>(169,221)</b>	<b>3,401,666</b>
<b>Other investment balances:</b>					
■ Cash deposits	149,156			2,496	63,715
■ Other Investment Balances	4,937				340
■ Investment Liabilities	(9,392)				(475)
<b>Net investment assets</b>	<b>3,623,210</b>			<b>(166,725)</b>	<b>3,465,246</b>

## Notes to the East Sussex Pension Fund Accounts

### 14b: Investments analysed by fund manager

	Market value 31 March 2020		Market value 31 March 2021	
	£000	£000	£000	%
<b>Investments in the ACCESS Pool</b>				
ACCESS - Global Equity (Longview)	238,840	6.9%	458,786	10.8%
ACCESS - Absolute Return (Ruffer)	418,469	12.1%	158,430	3.7%
ACCESS - Real Return (Newton)	414,784	12.0%	492,250	11.6%
ACCESS - Corporate Debt (M&G)	144,259	4.2%	510,048	12.1%
	<b>1,216,352</b>	<b>35.2%</b>	<b>1,619,514</b>	<b>38.2%</b>
<b>Investments held directly by the Fund</b>				
Prudential M&G	-	-	-	-
East Sussex Pension Fund Cash	24,736	0.7%	30,674	0.7%
UBS Infrastructure Fund	16,720	0.5%	37,697	0.9%
Prudential Infracapital	20,676	0.6%	32,707	0.8%
Pantheon	30,109	0.9%	38,120	0.9%
Schroders Property*	343,707	9.9%	344,204	8.1%
Harbourvest Strategies	106,192	3.1%	110,515	2.6%
Adams St Partners	122,874	3.5%	154,497	3.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
UBS Passive Funds	1,305,987	37.6%	557,483	13.3%
M&G Real Estate Debt VI	38,793	1.1%	42,416	1.0%
Atlas Infrastructure	-	-	77,324	1.8%
Storebrand Smart Beta & ESG	-	-	454,529	10.7%
Wellington Active Impact Equity	-	-	222,751	5.3%
Wheb Active Impact Equity	-	-	222,727	5.3%
	<b>2,248,894</b>	<b>64.8%</b>	<b>2,610,794</b>	<b>61.8%</b>
	<b>3,465,246</b>		<b>4,230,308</b>	

\* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.

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

Security	Market Value 31 March 2020	% of total fund	Market value 31 March 2021	% of total fund
	£000		£000	
ACCESS - Real Return (Newton)	414,784	11.9%	510,048	12.1%
ACCESS - Global Equity (Longview)	238,840	6.9%	492,250	11.6%
ACCESS - Absolute Return (Ruffer)	418,469	12.0%	458,786	10.8%
Storebrand Smart Beta & ESG Fund	-	-	454,529	10.7%
M&G Absolute Return Bonds	239,101	6.9%	285,150	6.7%
Wellington Active Impact Equity Fund	-	-	222,751	5.3%
Wheb Active Impact Equity Fund	-	-	222,727	5.3%
UBS Over 5 year Index Gilt Linked	212,331	6.1%	128,765	3.0%
UBS UK Equity	221,992	6.4%	66,680	1.6%
UBS Fundamental Index	363,155	10.4%	-	-

### 14c: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13<sup>th</sup> October 2008.

## 15: 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.

## Notes to the East Sussex Pension Fund Accounts

### 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. The Fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

The East Sussex Pension Fund did not hold any derivatives as at 31<sup>st</sup> March 2021 (nil as at 31 March 2020).

### 16: Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required

## Notes to the East Sussex Pension Fund Accounts

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – Equity and bonds Funds	Level 2	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p>	<p>The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used.</p> <p>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.</p>	Not Required
Pooled investments – Property Funds	Level 3	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p> <p>Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.</p>	<p>The significant inputs and assumptions are developed by the respective fund manager.</p>	Valuations could be affected by the frequency of the independent valuations between the funds.
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	<p>Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines.</p> <p>Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.</p>	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequential potential impact on the closing value of investments held at 31 March 2021 and 31 March 2020.

## Notes to the East Sussex Pension Fund Accounts

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	9%	42,416	46,233	38,599
Pooled property investments (b)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (c)	25%	372,564	464,960	280,168
<b>Total</b>		<b>734,513</b>	<b>872,266</b>	<b>596,761</b>

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	291,413	370,095	212,731
<b>Total</b>		<b>640,125</b>	<b>764,884</b>	<b>515,366</b>

- (a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 9% is caused by how this value is measured.
- (b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 13% is caused by how this value is measured.
- (c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 25% is caused by how this profitability is measured.

### 16a: Fair value hierarchy

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.

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
<b>Net investment assets</b>	<b>357</b>	<b>3,438,702</b>	<b>734,513</b>	<b>4,173,572</b>

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
<b>Net investment assets</b>	<b>222,079</b>	<b>2,539,327</b>	<b>640,125</b>	<b>3,401,531</b>

### 16b: Transfers between levels 1 and 2

During 2020/21 the fund has transferred 1 financial assets between levels 1 and 2. This was the Funds UK Passive Fund with UBS which was moved to level 2 from level 1 as the Fund assessment was that this was more aligned to the Pooled investments – Equity and bonds Funds category and as the valuation is advised as a unit price.

# Notes to the East Sussex Pension Fund Accounts

## 16c: Reconciliation of fair value measurements within level 3

	Market value 1 April 2020 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2021 £000
<b>Period 2020/21</b>								
Pooled investments	30,583	-	-	18,074	(6,715)	474	-	42,416
Pooled property investments	318,129	-	-	11,928	(9,274)	(4,459)	3,209	319,533
Private Equity/Infrastructure	291,413	-	-	77,295	(47,943)	24,207	27,592	372,564
<b>Total</b>	<b>640,125</b>	<b>-</b>	<b>-</b>	<b>107,297</b>	<b>(63,932)</b>	<b>20,222*</b>	<b>30,801*</b>	<b>734,513</b>

\*Reconciliation to Change in market value during the year in Note 14a

	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
Level 1 and 2	566,319	122,572	688,891
3	20,222	30,801	51,023
<b>Total</b>	<b>586,541</b>	<b>153,373</b>	<b>739,914</b>

	Market value 1 April 2019 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2020 £000
<b>Period 2019/20</b>								
Equities	33,670	-	-	4,344	(31,669)	8,716	(15,061)	-
Pooled investments	-	-	-	44,179	(14,239)	643	-	30,583
Pooled property investments	339,442	-	-	10,551	(15,342)	(22,256)	5,734	318,129
Private Equity/Infrastructure	245,135	-	-	57,631	(35,970)	1,863	22,754	291,413
<b>Total</b>	<b>618,247</b>	<b>-</b>	<b>-</b>	<b>116,705</b>	<b>(97,220)</b>	<b>(11,034)*</b>	<b>13,427*</b>	<b>640,125</b>

\*Reconciliation to Change in market value during the year in Note 14a

	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
Level 1 and 2	(269,121)	100,003	(169,118)
3	(11,034)	13,427	2,393
<b>Total</b>	<b>(280,155)</b>	<b>(113,430)</b>	<b>(166,725)</b>

## Notes to the East Sussex Pension Fund Accounts

### 17: 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 2020			31 March 2021		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>					
212,331	-	-	128,765	-	-
-	-	-	-	-	-
2,579,793	-	-	3,353,128	-	-
318,129	-	-	319,533	-	-
291,413	-	-	372,564	-	-
-	-	-	-	-	-
-	63,715	-	-	56,736	-
-	1,746	-	-	1,560	-
340	-	-	357	-	-
-	14,876	-	-	14,115	-
<b>3,402,006</b>	<b>80,337</b>	-	<b>4,174,347</b>	<b>72,411</b>	-
<b>Financial liabilities</b>					
-	-	-	-	-	-
(475)	-	-	(775)	-	-
-	-	-	-	-	-
-	-	(2,774)	-	-	(1,933)
<b>(475)</b>	<b>-</b>	<b>(2,774)</b>	<b>(775)</b>	<b>-</b>	<b>(1,933)</b>
<b>3,401,531</b>	<b>80,337</b>	<b>(2,774)</b>	<b>4,173,572</b>	<b>72,411</b>	<b>(1,933)</b>

\*Reconciliation to Current Assets Note 21

	2019/20	2020/21
	£000	£000
Cash held by ESCC	1,746	1,560
Debtors	14,876	14,115
<b>Current Assets</b>	<b>16,622</b>	<b>15,675</b>

### 17a: Net gains and losses on financial instruments

	31 March 2020	31 March 2021
	£000	£000
<b>Financial assets</b>		
Fair value through profit and loss	(167,355)	729,207
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	665	(598)
<b>Financial liabilities</b>		
Fair value through profit and loss	(35)	-
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
<b>Total</b>	<b>(166,725)</b>	<b>728,609</b>



## Notes to the East Sussex Pension Fund Accounts

### 18: 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 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 forecast cash flows. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension 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 from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the Fund's 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 2020/21 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	5%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

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.

## Notes to the East Sussex Pension Fund Accounts

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	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
<b>Total assets available to pay benefits</b>	<b>4,173,990</b>	<b>4,857,534</b>	<b>3,490,446</b>

Asset Type	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK Equities	221,992	284,150	159,834
Global Equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled Property Investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure Funds	62,941	75,529	50,353
Net Derivative Assets	-	-	-
<b>Total assets available to pay benefits</b>	<b>3,401,666</b>	<b>4,060,474</b>	<b>2,742,858</b>

### 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 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 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### 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. A 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 2021 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
<b>Total change in assets available</b>	<b>673,057</b>	<b>677,917</b>	<b>668,197</b>

## Notes to the East Sussex Pension Fund Accounts

Asset type	Carrying amount as at 31 March 2020	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
<b>Total change in assets available</b>	<b>691,735</b>	<b>695,874</b>	<b>687,596</b>

Income Source	Interest receivable 2020/21	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
<b>Total change in assets available</b>	<b>16,063</b>	<b>17,934</b>	<b>14,192</b>

Income Source	Interest receivable 2019/20	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
<b>Total change in assets available</b>	<b>7,507</b>	<b>10,285</b>	<b>4,729</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

### Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2021	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
<b>Total change in assets available</b>	<b>2,326,940</b>	<b>225,713</b>	<b>2,552,653</b>	<b>2,101,227</b>

Currency exposure - asset type	Values at 31 March 2020	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
<b>Total change in assets available</b>	<b>2,182,959</b>	<b>218,296</b>	<b>2,401,255</b>	<b>1,964,663</b>

## Notes to the East Sussex Pension Fund Accounts

### 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.

Summary	Asset value as at 31 March 2020 £000	Asset value as at 31 March 2021 £000
UK Treasury bills	86	-
Overseas Treasury bills		23,531
<b>Bank current accounts</b>		
NT custody cash accounts	63,629	33,205
<b>Total overseas assets</b>	<b>63,715</b>	<b>56,736</b>

### 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 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 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 liquidity risk is considered negligible.

All financial liabilities at 31 March 2021 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.

## 19: Funding arrangements

### Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

### Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

### Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;

## Notes to the East Sussex Pension Fund Accounts

- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

### Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	Based on Club Vita analysis
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	
Males	0.5% p.a.
Females	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

### Updated position since the 2019 valuation

#### Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

### Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

## Notes to the East Sussex Pension Fund Accounts

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

### Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

### Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

## 20: Actuarial present value of promised retirement benefits

### Introduction

We have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

This is the first accounting period for which the report has been prepared by Barnett Waddingham LLP; previous disclosures were prepared by Hymans Robertson LLP and we have relied on those disclosures as being accurate in the preparation of this report.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

### Valuation data

#### Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from East Sussex County Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 March 2020 IAS26 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2021;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019, 31 March 2020 and 31 March 2021; and
- Details of any new early retirements for the period to 31 March 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

### Fund membership statistics

The table below summarises the membership data, as at 31 March 2019.

Member data summary	Number	Salaries/Pensions £000	Average age
Active members	22,718	414,051	52
Deferred pensions	36,094	43,738	51
Pensioners	20,328	102,766	69

## Notes to the East Sussex Pension Fund Accounts

The average ages shown are weighted by liability.

### Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2021.

We have been notified of 105 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £1,012,200.

### Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2021 is estimated to be 22.56%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for East Sussex County Council Pension Fund as at 31 March 2021 is as follows:

Asset breakdown	31 Mar 2021		31 Mar 2020	
	£000s	%	£000s	%
Equities	3,227,118	76%	2,460,325	71%
Bonds	627,339	15%	589,092	17%
Property	319,533	8%	346,525	10%
Cash	70,882	2%	69,305	2%
<b>Total</b>	<b>4,244,872</b>	<b>100%</b>	<b>3,465,246</b>	<b>100%</b>

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2021 may be different from that shown due to estimation techniques.

### Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

### Actuarial methods and assumptions

#### Valuation approach

To assess the value of the Fund's liabilities at 31 March 2021, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

#### Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 March 2021, as shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

#### Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here [Consultation on indexation and equalisation of GMP in public service pension schemes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes)

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April

## Notes to the East Sussex Pension Fund Accounts

2016. Details of this outcome and the Ministerial Direction can be found here [Indexation of public service pensions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/indexation-of-public-service-pensions).

The valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

### Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are projected using the CMI\_2020 Model, with a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.5% p.a. for males and 0.25% p.a. for females, and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI\_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI\_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI\_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI\_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021 (after CMI_2020 update)	31 Mar 2021 (before CMI_2020 update)
<b>Retiring today</b>		
Males	21.1	21.4
Females	23.7	23.9
<b>Retiring in 20 years</b>		
Males	21.9	22.4
Females	25.0	25.2

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

### Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31 Mar 2021 % p.a.	31 Mar 2020 % p.a.
Discount Rate	1.95%	2.30%
Pension Increase Rate	2.85%	1.90%
Salary Increase rate	2.85%	1.90%

These assumptions are set with reference to market conditions at 31 March 2021.

Our estimate of the Fund's past service liability duration is 17 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). At the previous accounting date a "Hymans Robertson" corporate bond yield curve was constructed based on the constituents of the iBoxx AA corporate bond index.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that



## Notes to the East Sussex Pension Fund Accounts

which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. At the previous accounting date cashflow weighted single RPI rates were derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined in the accounting disclosure.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.40% p.a. below RPI i.e. 2.85% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue. The impact of this change in derivation on the liability value is shown in the Asset and benefit obligation reconciliation for the year to 31 March 2021 below.

Salaries are assumed to increase at 0.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

### Results and disclosures

We estimate that the net liability as at 31 March 2021 is a liability of £1,364,741,000.

The results of our calculations for the year ended 31 March 2021 are set out below.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

### Statement of financial position as at 31 March 2021

Net pension asset as at	31 Mar 2021 £000s
Present value of defined benefit obligation	5,609,613
Fair value of Fund assets (bid value)	4,244,872
<b>Deficit / (Surplus)</b>	<b>1,364,741</b>
Present value of unfunded obligation	-
Unrecognised past service cost	-
Impact of asset ceiling	-
<b>Net defined benefit liability / (asset)</b>	<b>1,364,741</b>

\*Present value of funded obligation consists of £5,607,717,000 in respect of vested obligation and £0 in respect of non-vested obligation.

### Asset and benefit obligation reconciliation for the year to 31 March 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31 Mar 2021 £000s
<b>Opening defined benefit obligation</b>	<b>4,378,000</b>
Current service cost	151,881
Interest cost	99,610
Change in financial assumptions	1,202,783
Change in demographic assumptions	(71,775)
Experience loss/(gain) on defined benefit obligation	(55,900)
Liabilities assumed / (extinguished) on settlements	-
Estimated benefits paid net of transfers in	(128,225)
Past service costs, including curtailments	3,809
Contributions by Scheme participants	29,430
Unfunded pension payments	-
<b>Closing defined benefit obligation</b>	<b>5,609,613</b>

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted above. These changes have resulted in a gain of £3,382,820,000 on the defined benefit obligation; comprising a gain of £410,211,000 from the change in assumed IRP and a gain of £2,972,609,000 from the change in the assumed gap between RPI and CPI inflation.

## Notes to the East Sussex Pension Fund Accounts

Reconciliation of opening & closing balances of the fair value of Fund assets	31 Mar 2021 £000s
<b>Opening fair value of Fund assets</b>	<b>3,465,246</b>
Interest on assets	79,719
Return on assets less interest	701,817
Other actuarial gains/(losses)	-
Administration expenses	(3,496)
Contributions by employer including unfunded	100,381
Contributions by Scheme participants	29,430
Estimated benefits paid plus unfunded net of transfers in	(128,225)
Settlement prices received / (paid)	-
<b>Closing Fair value of Fund assets</b>	<b>4,244,872</b>

The total return on the Fund's assets for the year to 31 March 2021 is £781,536,000.

### Sensitivity Analysis

Sensitivity Analysis	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	5,609,613	
<b>Sensitivity to</b>	<b>+0.1%</b>	<b>-0.1%</b>
Discount rate	5,514,731	5,706,223
Long term salary increase	5,618,061	5,601,211
Pension increases and deferred revaluation	5,696,828	5,523,865
<b>Sensitivity to</b>	<b>+1 Year</b>	<b>- 1 Year</b>
Life expectancy assumptions	5,879,433	5,352,534

### 21: Current assets

	31 March 2020 £000	31 March 2021 £000
<b>Other Investment Balances</b>		
Sales inc Currency	-	-
Investment Income Due	193	82
Recoverable Taxes	147	275
<b>Total</b>	<b>340</b>	<b>357</b>

	31 March 2020 £000	31 March 2021 £000
<b>Current Assets</b>		
Contributions receivable from employers and employees	13,436	10,870
Sundry Debtors	1,440	3,245
Cash	1,746	1,560
<b>Total</b>	<b>16,622</b>	<b>15,675</b>

### 22: Current liabilities

	31 March 2020 £000	31 March 2021 £000
<b>Investment Liabilities</b>		
Purchases including currency	-	-
Managers Fees	(475)	(775)
<b>Total</b>	<b>(475)</b>	<b>(775)</b>

	31 March 2020 £000	31 March 2021 £000
<b>Current Liabilities</b>		
Pension Payments (inc Lump Sums)	(264)	(184)
Cash	-	-

## Notes to the East Sussex Pension Fund Accounts

Professional Fees	(434)	(64)
Administration Recharge	(1,194)	(51)
Sundry Creditors	(882)	(1,649)
<b>Total</b>	<b>(2,774)</b>	<b>(1,948)</b>

### 23: Additional voluntary contributions

	Market value 31 March 2020 £000	Market value 31 March 2021 £000
Prudential	21,221	

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2020/21 the AVC provider changed some back office systems which have caused them unforeseen complications and have been unable to provide the Pension Fund Scheme with information as at 31 March 2021.

Information relating to the values at the 31 March 2020 are provided here. Some members of the pension scheme paid voluntary contributions and transfers in of £2.277m to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20. 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.

### 24: Agency Services

The East Sussex Pension Fund pays discretionary awards to former employees on behalf of some employers in the Fund. The amounts paid are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below.

	2019/20 £000	2020/21 £000
East Sussex County Council	4,899	4,793
Brighton & Hove City Council	2,291	2,261
Eastbourne Borough Council	304	308
Magistrates	209	212
Hastings Borough Council	174	175
Wealden District Council	176	174
Rother District Council	115	111
Lewes District Council	73	71
South East Water	35	29
Brighton University	26	24
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	17
Capita Hartshead	16	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Eastbourne Homes*	6	-
Newhaven TC	1	-
<b>Total</b>	<b>8,420</b>	<b>8,267</b>

\* Eastbourne Homes liabilities have been included in the Eastbourne Borough Council figures for 2020/21.

### 25: Related party transactions

#### East Sussex County Council

## Notes to the East Sussex Pension Fund Accounts

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 Committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund, and Members of the County Council and the Pension Committee have no material transactions with the Pension Fund.

The Council incurred costs in administering the Fund and charged £1.9m to the Fund in 2020/21 (£1.2m in 2019/20). The Council's contribution to the Fund was £43.0m in 2020/21 (£42.5 in 2019/20). All amounts due to the Fund were paid in the year. At 31 March 2021 the Pension Fund bank account held £1.6m in cash (£1.7m at 31 March 2020). The average throughout the year was £8.4m (£6.0 in 2019/20).

### 25a: 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.

	31 March 2020	31 March 2021
	£000	£000
Short-term benefits	18	26
Post-employment benefits	3	5
<b>Total</b>	<b>21</b>	<b>31</b>

### 26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £232.3m (31 March 2020: £322.0m).

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 2021, the unfunded commitment was £122.0m for private equity, £91.6m for infrastructure and £18.7 for private debt. 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 2021.

#### Exit Payments

There were 6 employers whose contracts were due to end by the 31 March 2021 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

#### GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3% p.a. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3% p.a.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. The next stage which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

HMRC have only recently provided the final reports required to complete the reconciliation so this means that the rectification stage has been delayed until now. The contracted provider Mercer are currently commencing the rectification project with the aim of completing the project by the 31st October 2021 at the latest. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2021

### 27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them 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 12 other admitted bodies are covered by:

- 9 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 1 deposit held by East Sussex County Council

At 31 March 2021, the Fund has invested £354.5 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £41.3 million in the M&G real estate debt fund VI and £116.8 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

## Notes to the East Sussex Pension Fund Accounts

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.

### 28: Impairment losses

During 2020/21, the fund has not recognised any impairment losses.

### 29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
<b>Scheduled Bodies - Major Authorities</b>						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
<b>Other Scheduled Bodies</b>						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish Council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingfold Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-
Newhaven Town Council	22.1	-	21.6	-	21.1	-
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-

# Notes to the East Sussex Pension Fund Accounts

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Telscombe Town Council	22.1	-	21.6	-	21.1	-
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
<b>Academy Schools</b>						
Annecy Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
<b>Colleges</b>						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-

## Notes to the East Sussex Pension Fund Accounts

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Municipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes - SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC - Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	0.0	-	0.0	-

## Notes to the East Sussex Pension Fund Accounts

### 30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 62 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	22.1	7.8	9.0	8.2
Benchmark	19.5	6.5	8.1	7.0
Relative*	2.6	1.3	1.0	1.2

#### Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	22.1	7.8	9.0	8.2
Local Authority Average	22.8	7.6	9.5	8.3
Relative*	(0.6)	0.2	(0.5)	(0.1)

The Fund underperformed the (weighted) average local authority fund over the year by 0.6% (1.3% outperformance 2019/20), ranking the East Sussex Fund in the 69 percentile (48<sup>th</sup> 2019/20) in the local authority universe. Over three years the fund outperformed by 0.2% (inline 2019/20) and was placed in the 56 percentile (55<sup>th</sup> 2019/20). Over five years the fund underperformed by 0.5% (0.1% outperformance in 2019/20) and was placed in the 67 percentile (37<sup>th</sup> 2019/20). Over ten years the fund years, the fund underperformed by 0.1% (0.1% underperformance 2019/20) and was placed in the 54 percentile (45<sup>th</sup> 2019/20).

\*Relative performance is calculated on a geometric basis as follows:

$$((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance})) - 1$$

As opposed to the simpler arithmetic method, the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.



## Glossary

### Academy Schools

Academies are independently-managed, all-ability schools which operate outside the control of the local authority.

### 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 (Impairment)

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 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.

### Community Schools

In a community school, the local education authority owns the land and buildings, but the governing body is responsible for running the school. The local education authority funds the school, employs the staff, provides support services and determines and administers the admissions policy. The pupils have to follow the national curriculum.

### 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 and Democratic Core (CDC)

Corporate and Democratic Core is defined as the two divisions of Democratic Representation and Management and Corporate Management.

## Glossary

### Corporate Management

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 corporate management.

### General 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

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. The auditor Grant Thornton was appointed by the Public Sector Audit Appointments Ltd 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.

### Foundation Schools

In foundation schools, the land and buildings are owned by a governing body, who are also responsible for running the school. The local education authority funds the school. The governing body employs the staff and buys in and administers most of the support services. The pupils have to follow the national curriculum. The admissions policy is determined and administered by the governing body, in consultation with the local education authority.

### 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.

## Glossary

### **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 carriageways, footways, structures and street lighting.

### **Intangible Assets**

This term includes such items as development expenditure or goodwill, but for local authorities it usually 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), Ashdown Forest Conservators and the Sussex Inshore Fisheries & Conservation Authority.

### **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 1 April 2013, Council Tax Benefit ended and was 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.

### **Minimum Revenue Provision**

An amount 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 is 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.

## Glossary

### Property, Plant and Equipment (PPE)

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. PPE 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 (Refcus)

Expenditure which may properly be charged to capital but does not result in a tangible asset.

### 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 to 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. (Following the changes introduced by the 2016/17 Code to reflect the Telling the Story Review of the Presentation of Local Authority Financial Statements, the Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates).

### 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. General Balances, Earmarked Reserves, and the Capital Receipts Reserve).

### Voluntary Schools

These schools are also called religious or faith schools and there are two types: voluntary controlled and voluntary aided. In a voluntary controlled school, the land and buildings are owned by a charity often a religious organisation such as a church. The charity appoints some of the members of the governing body, but the local education authority is responsible for running the school. The school is funded by the local education authority who also employs the staff and provides support services and determine the admissions policy. The pupils have to follow the national curriculum. With a voluntary aided school, the governing body is responsible for running the school, the school is funded partly by the local education authority, partly by the governing body and partly by the charity. The governing body employs the staff and the pupils have to follow the national curriculum. The admissions policy is determined and administered by the governors in consultation with the local education authority.

Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Finance Officer**

Title of report: **Review of the Grant Thornton (GT) report to those charged with governance and Pension Fund annual report for 2020/21**

Purpose of report: **For the Committee to note the Independent Auditor's (GT) report to those charged with governance.**

---

**RECOMMENDATIONS: The Committee is asked to:**

- (i) note the report and appendix.**
  - (ii) note management actions detailed on pages 18 and 19 of the Independent Auditor's report to those charged with governance.**
- 

## **1. Background**

1.1 This report summarises the key findings arising from the audit work of Grant Thornton (GT) in relation to the East Sussex Pension Fund, in compliance with the requirement for administering authorities to deliver an audit of the pension fund separate from the Council's accounts.

1.2 The accounts for the Pension Fund are incorporated within the authority's Statement of Accounts from page 105, included elsewhere on the agenda, with the East Sussex Pension Fund Annual Report 2020/21 due to be presented to the Pension Board and Pension Committee in November 2021.

## **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 Pension Committee to approve the Pension Fund annual report/accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit.

2.3 The GT report to those charged with governance is attached at Appendix A.

2.4 The audit of the 2020/21 Pension Fund accounts is nearing completion. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT anticipating being able to issue an unqualified audit opinion.

2.5 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report to those charged with governance, and GT has made recommendations, which have been discussed with management, on pages 18 and 19 of the GT report.

2.6 Three areas considered for improvement were identified:

- *Internal Controls around investment valuations at year end not operating.* In testing the valuation of Level 3 investments, GT triangulate between the custodian confirmation, the fund manager confirmations and the general ledger balances at year end. Due to the timing of when valuation statements were received it was noted that there was an understatement of £25.2m between a custodian and fund manager valuation. GT recommend that management ensures that checks and controls around investment valuations are in place to ensure correct valuations are in place. In responding to this, management has reflected that this is a common issue when investing in illiquid assets and outside of the Fund's control. Illiquid assets have a very delayed valuation process and the Fund will never have access to the final valuation of these funds when producing the accounts. The Fund will always use the most up to date information available and will update the accounts should a material difference arise.
- *Internal Controls around contributions received during the year not operating.* In the first 3 quarters of 2020/21 it was noted that the LGPS31 reconciliation between expected member contributions and actual contributions to the Pension Fund could not be evidenced as having been undertaken and had to be constructed as part of the audit. GT recommend that key internal reconciliations are prepared and reviewed in a timely way and are made available as part of the audit working papers alongside the financial statement. In responding to this, management has reflected the Fund identified an issue around contributions reconciliation's part way through the year and reported this in full to the Pension Board and Pension Committee. Fundamental changes were made during the latter part of the year implementing a robust reconciliation process to ensure all contributions due were collected.
- *Journal controls exception.* It was identified during audit testing that a journal, with a value over £1m, had not been reviewed and authorised by a more senior officer to the officer processing the journal, in line with best practice. GT recommend that all new and existing staff ensure that any journal over £1m is appropriately reviewed and authorised. In responding to this, management has reflected that it will reiterate that journals over £1m require senior officer sign off and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance.

**3. Conclusion and reasons for recommendations**

3.1 In carrying out their responsibility for review, Members should consider:

- The findings made by the external auditors as a result of audit of the 2020/21 accounts

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Ian Gutsell, Chief Finance Officer  
Tel. No. 01273 481399  
Email: [Ian.Gutsell@eastsussex.gov.uk](mailto:Ian.Gutsell@eastsussex.gov.uk)

Local Member(s): All

# The Audit Findings for East Sussex Pension Fund

**Year ended 31 March 2021**

East Sussex Pension Fund  
17 September 2021



# Contents



**Your key Grant Thornton team members are:**

**Darren Wells**

Key Audit Partner  
E Darren.J.Wells@uk.gt.com

**Andy Conlan**

Senior Manager  
E Andy.N.Conlan@uk.gt.com

**Phoebe Yeung**

Assistant Manager  
E Phoebe.Yeung@uk.gt.com

**Ke Ma**

In-Charge  
E Ke.Ma@uk.gt.com

**Section**

- 1. Headlines
- 2. Financial statements
- 3. Independence and ethics

**Appendices**

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

**Page**

- 3
- 4-14
- 15-16
- 18-19
- 20
- 21-22
- 23-24
- 25-26

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund’s financial statements for the year ended 31 March 2021 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion:

- the Pension Fund’s financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on site/remotely during July to September. Our findings are summarised on pages 4 to 14. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund’s reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

At the time of drafting this report, in the first week of September, there is reasonable progress with the audit but work is ongoing. We are endeavouring to achieve completion by the end of September subject to the satisfactory clearance of all audit queries and completion/review of the audit file.

However it should be noted that due to significant delays in the provision of working papers and populations at the start of fieldwork in July, achieving this deadline is at significant risk. Requested working papers agreed in March 2021, were not provided at the start of the audit in July. Similarly, key populations from which we sample test, were not provided with the draft accounts. This led to a significant amount of time spent by the audit team simply requesting and chasing items which had already been requested in March. This effectively delayed a lot of the substantive testing work we carry out until the start of August. In one instance, the population for our testing of member data was only provided in the week commencing 23 August 2021. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to the auditors of other scheme employers including the County Council, and therefore could delay the signing of the opinions on those audits.

There are currently no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the clearance of the following work and outstanding matters:

- Completion of testing of the sample of member data changes;
- Clearance of audit queries relating to manual journals;
- Clearance of audit queries outstanding relating to Investment classifications and the cash balances;
- A small number of service auditor reports from investment Fund Managers are outstanding at this date; we are chasing these to obtain these as soon as possible;
- Completion of our work to tie in the information provided to the actuary into the general ledger information on which we have completed our substantive testing, and subsequent to completion of this item and those above, issue of letters of assurance to the scheme employer auditors;
- Completion of our work to tie in immaterial disclosure notes to working papers provided by the finance team;
- Completion of our work on the Related Parties note;
- Completion of our work around Contingent liabilities and contractual commitments where we have not been provided with supporting working papers;
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- receipt and review of the Annual report;
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been provided to the audit team. We will not issue this separate opinion with the pension fund statement of accounts and are unable to certify completion of the audit of the administering authority until this work has been completed.

## 2. Financial Statements

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 26 March 2021.

### Conclusion

As stated on page 3 we are making progress on completion of the audit and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the 30 September 2021, as detailed in [Appendix E]. There is however a risk of not completing the work due to the difficulties encountered. The outstanding items are set out on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As in the previous year, the pandemic has impacted on the audit insofar as the audit team delivered the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council.

# 2. Financial Statements

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	£42.4m	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	£31.8m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to “aggregation risk”.
Trivial matters	£2.1m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the actual net assets in the draft accounts changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table adjacent our determination of materiality the Pension Fund.



## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals;</li> <li>tested unusual journals recorded during the year and post year end for appropriateness and corroboration;</li> <li>considered the reasonableness of significant accounting estimates and critical judgements made by management; and</li> <li>evaluated the rationale for any changes in accounting policies or significant transactions.</li> </ul> <p>We are still completing our testing subject to outstanding items as detailed on Page 3. In the work completed to date we identified one journal where the internal process for journals of value over £1m was not observed and as a result we have made a control recommendation which is detailed on page 18. We have otherwise not identified any issues in the audit processes carried out to date.</p>



# 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>Improper revenue recognition</b></p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>As documented in the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
<p><b>Valuation of Level 3 investments</b></p> <p>Risk description unchanged from that reported in our audit plan.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls;</li> <li>• reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code;</li> <li>• independently requested year-end confirmations from investment managers and custodian and carried out a triangulation test between these confirmations of valuations and the general ledger to identify any discrepancies;</li> <li>• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period;</li> <li>• We evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• Tested revaluations made during the year to see if they had accounted for correctly; and</li> <li>• where available reviewed investment manager and custodian service auditor report on design effectiveness of internal controls.</li> </ul> <p>In our testing of Level 3 investments we identified some variances between the valuation in the accounts and our expectation of the valuation per Fund Manager confirmations and our own expectation as informed by our testing of the audited accounts for the funds and known cash movements.</p> <p>This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from September 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. The Fund Managers provide valuations as at 31 March 2021, and our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.</p> <p>Note at this date some of the service auditor reports are outstanding from the Fund Managers. We are chasing these with the Managers.</p>



## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £734.5m	<p>The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2021 at £734.5m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management place reliance on the valuation provided by their fund managers. The value of the investment has increased by £116.2m in 2020/21, due to both changes in market value but also due to movements in sales/purchases in the year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers;</li> <li>assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field;</li> <li>We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively;</li> <li>agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and</li> <li>Tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable.</li> </ul> <p>As noted above, there are some service auditor reports which are outstanding from the investment Fund Managers, so this work is ongoing.</p>	No issues arising in our work so far, but work outstanding.

### Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3,438.7m	<p>The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £3,439m.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has increased by £1,137m in 20120/21 due to both changes in market value but also due to movements in sales/purchases in the year (also note page 10 below, there was a £366.5 reclassification from Level 1 to Level 2 which has also led to this increase).</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers);</li> <li>assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field;</li> <li>We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and</li> <li>agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period.</li> </ul>	

### Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
<p>Reclassification of Investments between Level 1 and 2 in the Fair Value Hierarchy</p> <p><i>In the 20/21 year the Fund has reassessed the Funds UK Passive Fund with UBS (£366.5m in 20/21, £221.9m in 19/20).</i></p>	<p><i>This was a material reclassification between fair value hierarchy classes and as such we discussed and challenged this with management in order to conclude on whether this was reasonable. The explanation given by management was that the Pension Fund views investments into funds that are priced daily to unit price to be level 2 investments and have therefore reclassified.</i></p> <p><i>Northern Trust the custodian have however classified this as a Level 1 investment. As such we have sent an additional query to Northern Trust to obtain an explanation as to what the reasoning is for their classification of this fund. We are awaiting a response to this inquiry.</i></p>	<p>We are awaiting a response to our further inquiry to the custodian which we will consider on receipt to conclude on whether the reclassification is reasonable.</p> <p><b>Management response</b></p> <p>The fund has reassessed this classification to level 2 based on further guidance from CIPFA that pooled funds should be level 2. The custodian will have these as level one as they are daily traded equities, however the East Sussex Fund access these through a pooled unit price and classified as such aligns with Pension Fund Accounting for LGPS funds.</p>



## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have made us aware of an incidence of non-compliance with relevant laws and regulations, the failure in previous years to submit ABS by August in the relevant year. And you cite this as a risk in the current period. We understand from discussions with management that measures have been put in place to improve the compliance in this area, and also that it is unlikely to result in a significant fine. As stated in the risk register this represents a reputational risk for the fund. We are discussing the current status of measures in this area for August 2021.  We have not identified any further incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	Overall progress on the audit has been subject to significant delay due to the finance team not providing the requested working papers at the start of the audit, and key populations which we required to carry out our testing were not provided with the draft accounts at the start of fieldwork. This led to a significant amount of time being spend by the audit team simply requesting and chasing items which had already been requested in our working paper listing which was communicated in March 2021. This effectively delayed a lot of the substantive testing work we carry out until August. A key population for our testing of member data for instance was only provided to the team in the week commencing 23 August 2021 where we started fieldwork on the 1 July 2021. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to other scheme employer auditors including for the County Council, and therefore could delay the signing of the opinion on those audits.

# 2. Financial Statements - other communication requirements

Page 199



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Pension Fund and the environment in which it operates</li> <li>the Pension Fund's financial reporting framework</li> <li>the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been provided to the audit team.</p> <p>We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>



# 3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 3. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £35,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p><b>Internal Controls around investment valuations at year end not operating</b></p> <p>As described on page 7, we reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from September 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. The Fund Managers provide valuations as at 31 March 2021, and our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.</p> <p>In this case the variance was not material. However, this could easily have resulted in a material error where the control has not operated effectively.</p>	<p>We recommend that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements.</p> <p><b>Management response</b></p> <p>This is a common issue when investing in illiquid assets and outside of the Funds control. Illiquid assets have a very delayed valuation process and the Fund would never have access to the final NAV position for these funds at the time of producing the accounts. The fund uses the most accurate information available to it at the time of producing the accounts based on the last audited NAV for the product plus any cash flow changes since that date. Information will always come out after the statutory date of producing the accounts and will always be updated during the audit process if the newly released valuation data is materially different.</p>
	<p><b>Internal Controls around contributions received during the year not operating</b></p> <p>In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received.</p> <p>However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. Our view is that this is an important process for the fund to assure itself over the completeness of contributions received during the year and at the year end. This is part of the Fund’s own documented internal control environment.</p>	<p>We recommend that management ensure that key internal reconciliations such as the LGPS31 reconciliations are prepared and reviewed internally in a timely way, and they are also made available as key working paper alongside the financial statements as a robust audit trail for contributions received.</p> <p><b>Management response</b></p> <p>The Pension Fund identified an issue around contributions reconciliations part way through the year and reported this in full to Pension Board and Committee. In addition fundamental changes were made during the latter part of the year that implemented a robust reconciliation process. Although this robust process was not retrospectively applied the Fund are confident that the different reconciliations that had been enacted to ensure all contributions due were collected.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice



# A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	<p><b>Journal controls exception</b></p> <p>As described on page 6, in our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.</p>	<p>We recommend that management recommunication this control to all new starters and existing staff to ensure that it is observed for all manual journals posted.</p> <p><b>Management response</b></p> <p>Management will reiterate that journals over £1m require senior sign off and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance. It is possible a future accounting system will have inbuilt workflow functionality to better build in controls which management would be supportive of.</p>

- Controls**
- High – Significant effect on financial statements
  - Medium – Limited Effect on financial statements
  - Low – Best practice

## B. Follow up of prior year recommendations

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in 2 recommendations being reported in our 2019/20 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Material Uncertainty around Investment Valuations</b></p> <p>In our 2019/20 testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team.</p> <p>We would expect that particularly around Level 3 investments, management should undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. The need for this check is particularly acute in the Covid-19 climate, but would also be a reasonable control in less uncertain years. We recommended that to gain their own assurance that the investments are materially correctly stated, management undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties.</p>	<p>The Pension Fund accounting team took this recommendation on, and ensured that questions were raised of the property manager specifically in 2020/21 following on from this recommendation that there were no impacts on the valuation due to covid in this year end position. The Fund does however acknowledge that illiquid assets will have a historic valuation at the time of accounts production so there could continue to be changes in these values during the audit process when new valuations are signed off and reported to the Fund.</p>
✓	<p><b>Investment valuation movements not posted to the accounting system during the year</b></p> <p>During our analytical review testing of investment movements during the year, it became apparent that although the Pension Fund receives investment manager reports quarterly, these are not posted to the general ledger until the year end.</p> <p>Our view is that to aid and evidence management oversight/control of investments, these quarterly reports of investment valuation movements/purchases/sales should be posted to the general ledger. We recommended that the quarterly investment manager report movements in investments are posted to the general ledger.</p>	<p>The fund has implemented a quarterly investment accounting process to map valuation moves into the accounts.</p>

### Assessment

- ✓ Action completed
- ✗ Not yet addressed

# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements in the work carried out to date.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Various minor casting amendments	We identified a small number of minor casting and disclosure issues.  Management response Agreed and these were amended in the accounts.	✓

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
<b>Level 3 Investment Valuations</b> In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts. See pages 7 and 18 for further information on this error.	Credit Changes in value of Investments: (£25,198)	Debit Level 3 investments: £25,198	£25,198	The total error is not material
<b>Overall impact</b>	<b>(£25,198)</b>	<b>£25,198</b>	<b>£25,198</b>	

## Impact of prior year unadjusted misstatements

There were no unadjusted prior year misstatements.

# D. Fees

We confirm below our fees charged for the audit and provision of non-audit services. Note that due to the issues and delays detailed on page 3 we have had to increase our team resources to complete the audit including additional management time in monitoring progress and attending catch ups to ensure sufficient progress was made to ensure completion of the audit and issue of the IAS19 assurances to other scheme employer auditors in sufficient time to allow for September sign offs which were planned. We will propose an additional fee for these increased inputs into the audit. This amount is still to be confirmed given that audit work is still in progress in September 2021, but once we complete the audit we will assess the proposed additional fee and discuss this with the Chief Finance Officer.

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	35,487	TBC
Total audit fees (excluding VAT)	£35,487	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	TBC
Total non-audit fees (excluding VAT)	£5,000	£TBC

# Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£7,000
<i>New issues for 2020/21</i>	
Impact of new auditing standards	£8,000
Total audit fees (excluding VAT)	£35,487

# E. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

## Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of East Sussex Pension Fund

### Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'Pension Fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

### Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief



# E. Audit opinion (continued)

Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries

- Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus with a focus on large and unusual manual journal entries;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**[Signature]**

Darren Wells, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor





This page is intentionally left blank