East Sussex County Council

GOVERNANCE COMMITTEE

TUESDAY, 17 JULY 2018

11.00 AM (OR AT THE CONCLUSION OF THE CABINET, WHICHEVER IS THE LATER)
COMMITTEE ROOM - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Keith Glazier (Chair)
Councillors Godfrey Daniel, David Elkin, Rupert Simmons and David Tutt

A G E N D A

1 Minutes of the meeting held on 26 June 2018 *(Pages 3 - 4)*

2 Apologies for absence

3 Disclosures of interests

Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.

5 Annual Review of the Corporate Governance Framework 2017/18 *(Pages 5 - 14)*
Report by the Assistant Chief Executive.

6 Independent Auditor's Report to those charged with governance and Statement of Accounts 2017/18 *(Pages 15 - 180)*
Report by Chief Finance Officer

7 Local Managers' Pay 2018/19 *(Pages 181 - 184)*
Report by Chief Operating Officer

8 Chief Executive , Chief Officers' and Deputy Chief Officers' Pay 2018/19 *(Pages 185 - 190)*
Report by Head of Human Resources and Organisation Development

9 Any other items previously notified under agenda item 4

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

9 July 2018

Contact Andy Cottell, 01273 481955,

Email: andy.cottell@eastsussex.gov.uk

GOVERNANCE COMMITTEE

MINUTES of a meeting of the Governance Committee held at Committee Room - County Hall, Lewes on 26 June 2018.

PRESENT Councillors Keith Glazier (Chair), Godfrey Daniel, David Elkin, Rupert Simmons and David Tutt

ALSO PRESENT - Councillors Bill Bentley and Phil Boorman

1 MINUTES OF THE MEETING HELD ON 24 APRIL 2018

1.1 RESOLVED – that the minutes of the previous meeting of the Committee held on 24 April 2018 be confirmed and signed as a correct record.

2 REPORTS

2.1 Copies of the reports referred to below are included in the minute book.

3 LEWES PUBLIC LIBRARY AND MUSEUM CHARITABLE TRUST AND DELEGATIONS FOR CHARITABLE TRUSTS WHERE THE COUNTY COUNCIL IS TRUSTEE

3.1 The Committee considered a report by the Director of Communities, Economy and Transport regarding the Lewes Public Library and Museum Charitable Trust and delegations for Charitable Trusts where the Council is Trustee.

3.2 The Committee RESOLVED – to recommend the County Council to:

(1) approve the registration of Lewes Public Library and Museum Charity with the Charity Commission;

(2) approve the proposed governance and decision making arrangements for the Charity as set out in the report; and

(3) approve that the delegations for decision making set out in the Constitution (including those set out in Part 3 Responsibility of Functions, which includes delegations to members and officers) apply to decisions relating to the Charitable Trusts for which the County Council is Trustee as they do to other County Council functions.

4 REPORT OF THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN

4.1 The Committee considered a report by the Assistant Chief Executive regarding a report of the Local Government and Social Care Ombudsman.

4.2 The Committee RESOLVED to – note the contents of the Local Government and Social Care Ombudsman's report in respect of complaint reference 16013883 and endorse the Council's actions in response to the complaint

5 APPOINTMENT TO OUTSIDE BODY - SUSSEX POLICE AND CRIME PANEL

5.1 The Committee considered a report by the Assistant Chief Executive regarding the appointment of a second representative on the Police and Crime Panel.

5.2 It was RESOLVED – to appoint Councillor Lambert as a second representative on the Police and Crime Panel for a one year period

6 APPOINTMENT TO OUTSIDE BODIES - COMBE VALLEY COUNTRYSIDE PARK COMMUNITY INTEREST COMPANY

6.1 The Committee considered a report by the Assistant Chief Executive regarding an appointment to the Combe Valley Countryside Park Community Interest Company.

6.2 It was RESOLVED – to appoint Councillor Beaver as a Council representative on the Combe Valley Countryside Park Community Interest Company for the period to June 2021.

7 LOCAL MANAGERS' PAY 2018/19

7.1 The Committee considered a report by the Chief Operating Officer regarding the pay offer for the LMG pay negotiations with Unison for 2018/19.

7.2 It was RESOLVED – to determine that the pay offer for LMG Managers to be negotiated with Unison for 2018/19 as being equivalent to the national pay offer of 2%

Committee:	**Governance Committee**
Date:	**17 July 2018**
Title of report:	**Assessment of the Corporate Governance Framework for 2017-18**
By:	**Assistant Chief Executive**
Purpose of report:	**To (1) provide information on compliance with the Council's code of corporate governance and any changes to it that may be necessary to maintain it and ensure its effectiveness in practice; and (2) gain approval of the Council's Annual Governance Statement in compliance with the requirements of the Accounts and Audit Regulations 2015.**

RECOMMENDATIONS: The Governance Committee is recommended to:

- **approve the action plan for the next year;**
- **note that items identified to enhance governance arrangements are reflected in Business Plans and that implementation will be monitored through the year:**
- **confirm that Members are satisfied with the level of assurance provided to them through this report and the Council's governance framework and processes;**
- **consider any comments from the Audit Committee;**
- **identify any significant governance issues that should be included in the Council's Annual Governance Statement; and**
- **approve the Annual Governance Statement for signature by the Leader and the Chief Executive and publication within the Statement of Accounts**

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1. Supporting Information

1.1 The Corporate Governance framework reflects both legislative and regulatory change and is based on revised guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Chief Executives and Senior Managers (SOLACE).

1.2 The Accounts and Audit Regulations 2015 require the Council to ensure that it has in place a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for risk management. The Council is required to conduct an annual review of the effectiveness of its system of internal control and to prepare an annual governance statement in accordance with proper practices in relation to internal control to accompany its Statement of Accounts.

1.3 The production of an Annual Governance Statement is the final stage of an ongoing process of review of our governance arrangements including risk management and internal control. In summary, the process must involve an organisation reviewing the adequacy of its governance arrangements, developing an action plan for improving those arrangements and communicating the framework to users and stakeholders.

1.4 The report is to be considered by the Audit Committee on 13 July prior to the Governance Committee on 17 July. Any comments arising from the Audit Committee will be reported to the Governance Committee at its meeting.

2. Assessment of the Corporate Governance Framework for 2017-18

2.1 The Council's corporate governance framework is underpinned by a number of key documents and processes. These are summarised in section 4 of the Annual Governance Statement (Appendix 3).

2.2 The main policies and strategies that make up the Council's corporate governance framework are set out in the Local Code of Corporate Governance and are summarised in Appendix 1 to this report. The Local Code of Corporate Governance was updated to reflect the revised CIPFA/SOLACE Framework that was published during 2016 and was agreed by the Governance Committee in March 2017.

2.3 A review of the Council's governance arrangements for 2017/18 has been undertaken. This review process is summarised in Appendix 2. Each document or process in the framework has been assessed and named officers have been required to provide an assurance as to whether the document is being complied with, the level of awareness of the document amongst staff and stakeholders, whether it reflects Council policy and best practice, and arrangements for reviewing it. Where further improvements are identified these are set out within the Annual Governance Statement and form part of departmental business plans for the year ahead.

2.4 In addition, all Chief Officers have signed their own Directorate Assurance Statement confirming that proper governance arrangements, effective risk management and a sound system of internal control are in place within their department. They are also asked to identify any exceptions and any actions being taken to address them. Similarly, these issues will be monitored through the relevant Business Plans. The Chief Finance Officer has signed an Assurance Statement regarding the Council's governance arrangements

2.5 The overall Corporate Governance assessment and review of effectiveness has also been informed by the sources of assurance set out in section 3 of the Annual Governance Statement (Appendix 3). As part of the assurance gathering process, the CIPFA/SOLACE guidance on corporate governance was taken into account and is reflected in the Local Code.

2.6 Evidence shows that the Council continues to have in place good arrangements for corporate governance and that they are working effectively.

3. **Annual Governance Statement**

3.1 An Annual Governance Statement from the Leader of the Council and the Chief Executive is included at Appendix 3. It includes the mandatory disclosure of any significant governance issues identified through the Council's governance and internal control arrangements.

3.2 Sound corporate governance is crucial if the Council is to continue to provide leadership, direction and control. It is important that members are aware of the documents and activities that work together to provide assurances about the Council's governance measures in place. The Annual Governance Statement provides an opportunity for the Council to assess and report transparently to the public how it 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.

3.3 Since the abolition of the Comprehensive Area Assessment our external auditors are no longer required to formally assess and make scored judgements on our governance arrangements. However, they do review the Annual Governance Statement and in their most recent Annual Audit Letter concluded that it was consistent with their understanding and did not identify any issues.

PHILIP BAKER
Assistant Chief Executive

Contact officer: Andy Cottell, Democratic Services Manager 01273 481955
Local Member: All

BACKGROUND DOCUMENTS: Pro formas returned by document "owners" setting out whether the various codes, policies and strategies are being complied with.

Appendix 1

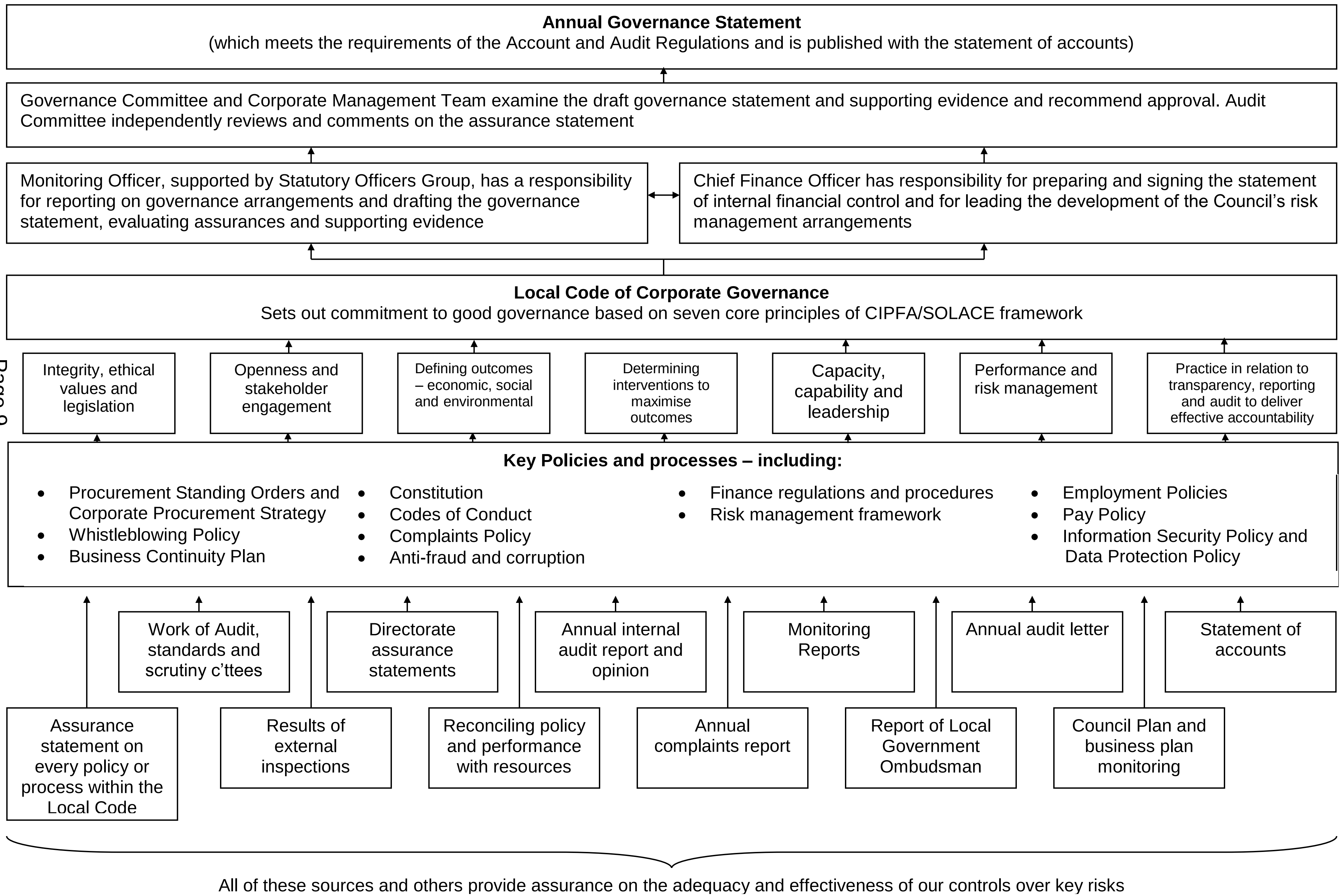
<u>Local Code of Corporate Governance – key policies and processes</u>

Policy or process	Integrity, ethical values and legislation	Openness and stakeholder engagement	Defining outcomes – economic, social and environmental benefits	Determining interventions to maximise outcomes	Capacity, capability and leadership	Performance and risk management	Practice in relation to transparency, reporting and audit to deliver effective accountability
Reconciling Policy, Performance and Resources	✓	✓	✓	✓		✓	✓
Council Plan	✓		✓			✓	✓
Council Monitoring		✓		✓	✓	✓	✓
Procurement Standing Orders and Corporate Procurement Strategy	✓		✓	✓		✓	✓
Risk Management Framework			✓	✓		✓	
Corporate Complaints Policy	✓	✓				✓	✓
Constitution	✓	✓		✓		✓	✓
Business Continuity Plan						✓	
Employment Policies	✓				✓		
Pay Policy	✓	✓			✓		✓
Scheme of Delegation	✓				✓		✓
Code on Officer / Member relations	✓			✓			
Member Training and Development					✓		✓
Guidance to members on outside organisations	✓		✓				
Code of Conduct for Employees	✓						✓
Code of Conduct for Members	✓						✓

Policy or process	Integrity, ethical values and legislation	Openness and stakeholder engagement	Defining outcomes – economic, social and environmental benefits	Determining interventions to maximise outcomes	Capacity, capability and leadership	Performance and risk management	Practice in relation to transparency, reporting and audit to deliver effective accountability
Anti Fraud & Corruption Strategy	✓						✓
Confidential Reporting (Whistle-blowing) Policy	✓	✓				✓	✓
Anti Money Laundering Policy	✓						✓
Financial Regulations & Standard Financial Procedures	✓		✓	✓		✓	✓
Medium Term Financial Plan	✓		✓	✓			
Communication/ engagement with residents and partners		✓					✓
Health and Safety Policies & Procedures	✓						
Information Security Policy (including Data in Transit) and Data Protection Policy	✓						
Freedom of Information Policy		✓				✓	✓

Appendix 2

ESCC Framework for the Annual Governance Statement



East Sussex County Council

Annual Governance Statement for the year ended 31 March 2018

1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussexcc.gov.uk or can be obtained from the Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit (England) Regulations 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 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 2018 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 Operating Officer and the Chief Finance Officer;
- the work of the Monitoring Officer and the Statutory Officers' Group ;
- the risk management arrangements, including the maintenance and regular review of strategic risks by Chief Officers and departmental risks by management teams;
- the work of the internal audit service including their quarterly progress reports, on-going action tracking arrangements and overall annual report and opinion;
- the external auditors in their audit annual letter and 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;
- strategies for communication and consultation with the people of East Sussex and our key stakeholders;
- clear guidance that promotes good governance in our partnership working;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, ICT security, access to information, data protection and project management.

5. Assurance and Significant Governance Issues

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

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

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

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities. The Council, through the Directorate Assurance

Statements 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.

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

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

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

Councillor Glazier, Leader
Becky Shaw, Chief Executive
17 July 2018

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

Business Services (BSD)

- Embed the Contract Management Framework and monitor the performance of contract managers to ensure contracts are managed in a consistent way, which will help minimise potential risks and maximise opportunities.
- The BSD risk logs will continue to be monitored by DMT
- In order to provide an early warning system of potential Supplier risk of failure, Procurement have built the S.C.A.P.E system (Supply Chain Alert of Potential Exposure). This monitors the Council's most critical suppliers against a range of lead indicators, i.e. profit warning, stock market transactions etc. These are monitored daily and escalated where appropriate to Senior Leadership Team members of Procurement.
- With the Access pool going live on 1 April 2018 we will continue to work with partners to ensure the pool operates within the governance structure established, e.g. supporting the Access Pool Joint Committee and with Section 151 Officers meeting on a regular basis.
- In response to the requirements of the General Data Protection Regulations (GDPR) coming into force on 25/05/18, the statutory role of Data Protection Officer will be appointed to, sharing the role with the Orbis partner authorities and continuing to implement the GDPR action plan.
- Retaining corporate compliance with government / partner accreditations to protect business information and allow the Council to share securely with its partners. Noting that Public Service Network (PSN) and Information Governance (IG) Toolkit requirements are undergoing national change.
- Implementing a number of initiatives that enhance the security of the organisation, strengthening its position against the risk of cyber attack; both through enhanced technical control and increased user awareness.
- Develop a Data Management Strategy, explore the use of artificial intelligence and use of robotic process automation.
- Develop a new 3 year Inter Authority Agreement (2019/20 – 2021/22) for Orbis to provide appropriate governance around the partnership

Children's Services

- The Children's Services risk logs will continue to be monitored by DMT
- Continue to put in place training, systems and policies to ensure GDPR compliance.
- Prepare for inspection and implementation of the Woods Review in relation to the Local Safeguarding Children's Board.
- Work towards the implementation of the second phase of the schools national funding formula
- Implement any actions emerging from the ISOS review of the three demand led budgets, social care, Inclusion, Special Educational Needs and Disability and Home to School Transport

Communities, Economy and Transport

- The Community, Economy and Transport risk logs will continue to be monitored by DMT
- Implementation of powers of entry audit
- Undertake a review of emergency planning
- Conduct an audit review of Veolia's tonnage record keeping
- Undertake a review of The Record Centre premises at Ropemaker Park, Hailsham

- Undertake a review of, and make any necessary changes to, The Keep Memorandum of Understanding
- Progress the development of the Sub-national Transport Body towards statutory status

Adult Social Care and Health

- The Adult Social Care and Public Health risk logs will continue to be monitored by DMT.
- The East Sussex Better Together (ESBT) Integrated Strategic Investment Plan sets out the intentions of the Clinical Commissioning Groups and County Council in terms of patterns of investment and expected outcomes. This will require ongoing review against actual delivery, expenditure and performance, with in-year adjustments made as required to mitigate risks and reflect changing circumstances. As ESBT develops the Alliance Agreement will continue to be reviewed and amended as required.
- In High Weald Lewes and Havens the ambition is to develop effective Communities of Practice (CoPs) as a recognised place to plan, deliver and monitor the effectiveness of integrated care delivery. The C4Y Operational Planning and Delivery group brings together senior executive, operational and clinical lead representatives from the C4Y partner members and is a formal sub-group of the C4Y Programme Board (C4YPB). A summary of its key purpose is to:
  - Establish governance and collectively drive the development of effective Communities of Practice (CoP)
  - Ensure that the commissioned health and social care services meet the needs of the local CoP populations, are efficient, sustainable and delivered within available resources
  - Oversee the operational delivery and implementation of the C4Y programme plans at a high level and ensure service changes and improvements deliver the required shift to out of hospital service provision in the CoP settings, in line with the C4Y objectives.
  - Drive the development of new approaches and models of care, strategies and quality frameworks for the continued development and transformation of CoPs and services
  - Enable front line managers across the health and social care system to deliver performance improvement through the identification and removal of organisational barriers and resolution of underlying system, process or capacity issues that negatively impact on the provision of optimal care delivery.

Governance Services

- Provide a comprehensive training programme for councillors
- The Governance Services Department risk logs will continue to be monitored by DMT
- Implement and review the new scrutiny committee and Audit Committee structure agreed by the County Council
- Review the online declaration of interest and gifts/hospitality system as required
- Undertake a review of the Health and Wellbeing Board
- Ensure that councillors receive information in relation to compliance with the General Data Protection Regulations
- Ensure appropriate governance arrangements are developed and maintained in relation to the establishment of Orbis Public Law

Report to:	**Governance Committee**
Date:	**17 July 2018**
By:	**Chief Finance Officer**
Title of report:	**Independent Auditor's (KPMG) Report to those charged with governance and Statement of Accounts 2017/18.**
Purpose of report:	**To present the KPMG report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2017/18 Statement of Accounts.**

RECOMMENDATIONS

The Governance Committee is recommend to:

(1) note the Independent Auditor's (KPMG) report to those charged with governance on ESCC Accounts, and the Value for Money conclusion report;

(2) authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP; and

(3) approve the 2017/18 Statement of Accounts for publication.

1. Background

1.1 This report summarises the key findings arising from KPMG final audit work in relation to the Council's 2017/18 financial statements; and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

2. Supporting Information

2.1 KPMG LLP is obliged to produce a report to those charged with governance on the East Sussex County Council accounts (Appendix 1), which formally reports on the outcome of the final audit of the Council's financial statements.

2.2 KPMG report requires publication of more detailed points, which in the past were treated as routine technical matters between officers and the auditors. As it happens, on this occasion there are few such points.

3. Changes to ESCC Statement of Accounts

3.1 The Chief Finance Officer on 30 May 2018 formally approved the draft Statement of Accounts, in line with the Accounts and Audit 2015 Regulations. Since then the final audit has been carried out by KPMG, and the Regulations require me to report on changes to the accounts before they can be published.

3.2 Subject to any issues being identified by KPMG between the issue of this report and the meeting, I am able to report that the auditors propose to issue an unqualified "true and fair" 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 reports to those charged with governance. KPMG has made a recommendation, which was discussed and management response is included on page 16 of the KPMG report.

3.4 The area considered for improvement relates to the use of a contingency provision within the land and buildings valuation. KPMG identified that the valuer Montagu Evans has included a contingency provision of 5% of each revalued specialised asset, of a total value of £13.6m. The current guidance on the subject does not expressly prohibit the use of a contingency provision for such assets, and there is currently a RICs consultation ongoing regarding the guidance for specialised asset valuations.

3.5 KPMG also carried out the review of the arrangements made by the Council to secure economy, efficiency and effectiveness in the use of resources (Value for Money - VFM), did not identify any significant VFM risks in 2017/18. KPMG are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties. KPMG did not feel it necessary to report on any particular points on value for money issues.

3.6 The revised set of accounts is attached as Appendix 2.

4 Publication of Statement of Accounts

4.1 The legal deadline for publishing the 2017/18 accounts is the end of July 2018. Once KPMG has completed their work, a Letter of Representation (Appendix 3) needs to be signed by the Chief Finance Officer prior to KPMG issuing an unqualified opinion. This will enable me to publish the 2017/18 Statement of Accounts on the Council's website, which fulfils the legal requirement.

5. Conclusion and reasons for recommendations

5.1 The Committee is recommended to note the Independent Auditor's report to those charged with governance on ESCC Accounts, the Value for Money conclusion report and to authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

Local Member(s): All

External Audit Report 2017/18

East Sussex County Council

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13 July 2018

Content

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This report is addressed to East Sussex County Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to East Sussex County Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is still in progress, and we will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Non pay expenditure testing
- Final sample and transactional testing
- Review of disclosures within the financial statements
- Whole of Government Accounts ("WGA")
- Final review and closedown procedures
- Receipt of the signed management representation letter

Section One

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no adjusted or unadjusted audit differences.
- We agreed presentational changes to the accounts with the Finance Team, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:

– The valuation of land and buildings as at 31 March 2018 is materially appropriate, and that the use of a contingency provision is appropriate for the needs of the Council's estate;

– The Council is satisfied that the instructions issued to the valuer are complete and accurate to ensure a materially appropriate valuation;

– That there have been no contractual variations in respect of the Council's PFI assets; and

– That it is appropriate to continue to record 20 Voluntary Controlled ("VC") schools on the Council's balance sheet at 31 March 2018

- We will report that your Annual Governance Statement ("AGS") complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the Narrative Report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year, though we continue to undertake work on the LOBO objection raised during 2016/17.

We are now in the completion stage of the audit. We intend to issue our 2017/18 Annual Audit Letter in August 2018. The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2016/17. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

KPMG

Summary

Other matters

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

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

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We have made one new recommendation as a result of our 2017/18 work, which relates to the the use of a contingency provision within the PPE valuation. Full details are given in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. These grants are summarised below:

- Teacher's Pensions return 2017/18
- National College of Teaching and Leadership return 2017/18

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have not made any recommendations regarding the Council's control environment during the year. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Head of Finance and this was issued as a final document to the finance team. This resulted in audit working papers which were of appropriate quality for the purposes of the audit.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • The introduction of introduce key reporting principles for the Narrative Report; • Updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting; and • Amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. This is the fourth year that the Authority has completed its accounts and audit process to an accelerated deadline, and we consider that the overall process for the preparation of your financial statements is adequate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts which we have presented in appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Financial Officer on 3 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on: • The valuation of land and buildings as at 31 March 2018, and that the use of a contingency provision is appropriate for the needs of the Council's estate; • The Council is satisfied that the instructions issued to the valuer are complete and accurate to ensure a materially appropriate valuation; • That there have been no contractual variations in respect of the Council's PFI assets; and • That it is appropriate to continue to record 20 VC schools on the Council's balance sheet at 31 March 2018

Financial statements audit

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

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings, and the pensions assets and liability, which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Pension assets and liabilities	Net pensions liability: £409.8m	The net pension liability represents a material element of the Authority's balance sheet. The Authority is the administering authority of East Sussex County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. In our *External Audit Plan 2017/18*, we identified the pensions liability as a significant risk, and since then have also identified the pension assets as a significant risk. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. • As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the actuary, Hymans Robertson. • We reviewed the appropriateness of the key assumptions included within the valuation and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. • In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. • In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We have no other matters to raise with you as a result of this work.

KPMG

Financial statements audit

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Valuation of land and buildings	Land and buildings: £373.5m	The Code requires that w here assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model w hich sees all land and buildings revalued over a three year cycle. As a result of this, how ever, individual assets may not be revalued for tw o years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. • We review ed the revaluation basis and considered its appropriateness. We engaged KPMG's valuation experts to undertake an assessment of the valuation. • We review ed the approach that the Authority adopted to assess the risk that assets not subject to valuation w ere materially misstated and considered the robustness of that approach. • In relation to those assets w hich have been revalued during the year w e review ed the accounting entries made to record the results of the revaluation in order to ensure that they w ere appropriate. • We review ed the Council's impairment review undertaken against the impairment triggers set out in the CIPFA Code to satisfy there have been no significant impairments in 2017/18. • We considered the basis on w hich school assets w ere recorded on the Council's balance sheet • We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and review ed the methodology used (including testing the underlying data and assumptions). During our review of the Council's land and buildings valuation, it w as identified that the valuer Montagu Evans has included a contingency provision of 5% of each revalued specialised asset, of a total value of £13.6m. The use of a contingency provision is typically to act as a buffer against delays in the construction process of a new asset, w hich some valuers now consider to be inconsistent w ith the "instant build" methodology adopted by the CIPFA Code and the FReM. Current guidance issued by the Royal Institute of Chartered Surveyors (RICs) *UKGN 2 Depreciated replacement cost method of valuation for financial reporting* does not expressly prohibit the use of a contingency provision. How ever, w e do note that there is currently a RICs consultation ongoing regarding this guidance note, and the consultation draft does state that a contingency provision should not be used w here the instant build method is deployed. This is an area of judgement and it is not currently disallow ed w hen using the instant build approach. How ever, w e have raised a recommendation that the Council should consider the appropriateness of the inclusion of this provision going forw ard, in light of the new guidance due to be published.

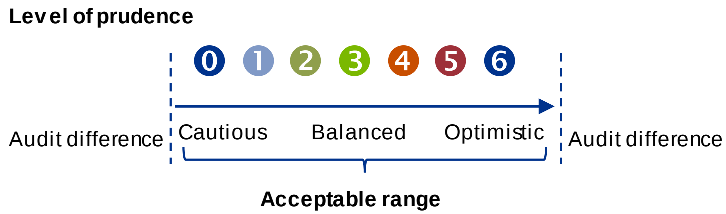
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.	In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Creditor Accruals	3	3	£43.7m	The Authority recorded creditor accruals of £43.7m for 2017/18. In most cases, the Authority will make significant judgements when calculating estimates for accruals, as information about actual amounts owed were not available at 31 March 2018. Accruals are based on estimates and judgements of historical trends and anticipated outcomes. At the end of each accounting period, Management reviews outstanding items and estimates the amounts to be accrued. Any variation between the estimate and the actual is recorded under the relevant heading in the accounts in the subsequent financial period. Our procedures focussed on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation and reasonable assumptions. In addition we have undertaken a retrospective review of accruals made in 2016/17 and agreed them to subsequent expenditure transactions in 2017/18, to support the accuracy of methodologies to accrue expenditure. All of the items tested could be agreed to appropriate supporting evidence, and based on this review we are satisfied that the estimates made in the accruals process are reasonable and balanced. We have no matters to raise with you in respect of this work.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Valuation of land and buildings	1	3	£373.5m	The Authority utilise an external valuer, Montagu Evans, to value their land and buildings. All land and buildings are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended. All assets are subsequently measured at fair value, as part of a rolling revaluation programme which ensures that all assets are revalued within a 3 year period. Land and buildings are valued at fair value, determined as the amount that would be paid for the asset in its existing use (existing use – EUV). These methods are in line with the Code of Practice on Local Authority Accounting 2017/18 and the RICS Red Book. Our audit work has included a detailed consideration of the valuation basis used and review of the Montagu Evans valuation reports by KPMG's valuer. We have also considered the appropriate valuation basis of 20 VC schools which are recorded on the Council's balance sheet. On page 10, we have set out our findings in relation to the Council's inclusion of a contingency provision, as a key area of judgement. We consider inclusion of this provision to be optimistic within our acceptable range of prudence. We have raised a recommendation that management consider the appropriateness of the inclusion of this contingency provision in future years, in light of new guidance that is due to be published.
Net pension liability	3	3	£409.8m	The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. We obtained the data provided to the actuary and sample tested the data back to the systems and reports from which it was derived to ensure the accuracy of this data. We also reviewed the information provided to actuaries for IAS 19 calculation and sample tested the data back to supporting evidence. We have no matters to raise with you in respect of this work.

Financial statements audit

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Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year. However, as noted previously, we continue to respond to one objection raised during the 2016/17 audit.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

— As previously noted we have an ongoing objection outstanding.

— HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The audit deadline is 31 August 2018.

Whole of Government Accounts (WGA)

As above, the audit deadline is 31 August 2018. Work will take place on this in late July/August and we will report back to you if there are any significant issues arising.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Teacher's Pensions return 2017/18
- National College of Teaching and Leadership return 2017/18

Audit fees

Our fee for the audit was £83,572 excluding VAT (£83,572 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2018. There is also an ongoing objection as noted above. Work is ongoing in relation to this and a fee will be agreed with management and the PSAA through the PSAA fee variation process.

We will complete non-audit work at the Authority in year on two grant claim certifications totalling fees of £6k (2016/17: £6k), and have included in appendix 4 confirmation of the safeguards that have been put in place to preserve our independence.

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:

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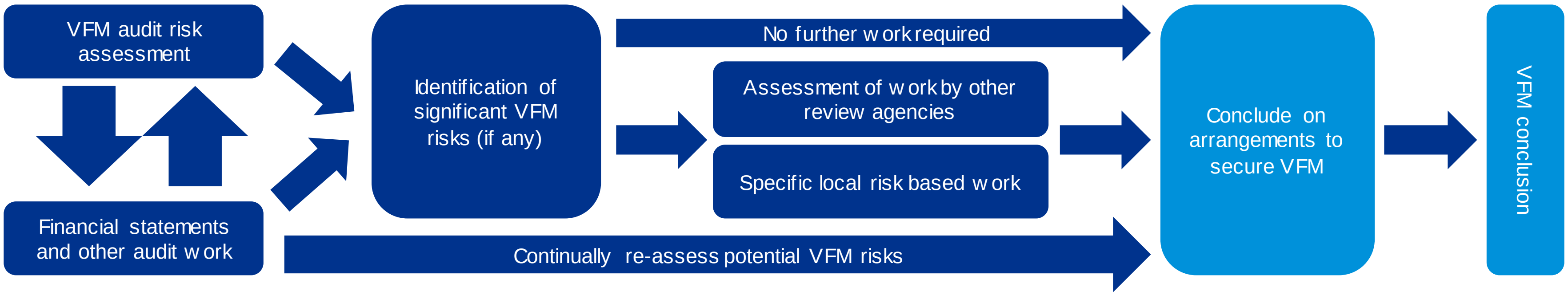

We did not identify any significant VFM risks in 2017/18. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Recommendations raised and followed up

We detail below the one recommendation arising from our 2017/18 financial statements audit. We note there were no recommendations arising during our 2016/17 audit which required follow up.

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

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❷	**Use of a contingency provision within the land and buildings valuation** During our review of the Council's land and buildings valuation, it was identified that the valuer Montagu Evans has included a contingency provision of 5% of each revalued specialised asset, of a total value of £13.6m. Whilst current guidance on the subject does not expressly prohibit the use of a contingency provision for such assets, a number of valuers have moved away from using such provisions now as they are considered inconsistent with the instant build approach. Moreover, there is currently a RICs consultation ongoing regarding the guidance for specialised asset valuations, which states that a contingency provision should not be used where the instant build method is deployed. We recommend therefore that the Council review its need for a contingency provision in light of the new guidance as it is published, to ascertain if a contingency provision is appropriate and allowable in future years.	**Accepted** Pre the 2018/19 closure of account closure process, the Council (in consultation with our valuer) will review its need for a contingency provision as soon as the new Royal Institute of Chartered Surveyors (RICs) guidance is published. **Responsible officer** Ola Owolabi, Head of Pensions **Due date** 31 May 2019

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Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in March 2018. Materiality for the Authority's accounts was set at £9.9 million which equates to around 1% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £495k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £495K are shown below.

Unadjusted audit differences

We are pleased to report there are no unadjusted audit differences.

Adjusted audit differences

We are pleased to report there are no unadjusted audit differences.

Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

#	Basis of audit difference
1	**Note 39 Related Parties:** our audit identified that this note under disclosed related party transactions between the Council and those bodies for whom Councillors have significant influence or control over. These have been amended in the revised financial statements.
2	**Note 44 Defined Benefit Pension Schemes:** our audit identified that the draft accounts disclosed £37m of employer pension contributions within the narrative of this note, however this should have been £34m. This has been updated in the revised financial statements.

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF EAST SUSSEX COUNTY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	83,572	83,572
Total audit services	**83,572**	**83,572**
Allowable non-audit services	0	0
Audit related assurance services	6,000	6,000
Mandatory assurance services	0	0
Total Non Audit Services	**6,000**	**6,000**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 1:14. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the Audit Committee. During 2017/18 we have also undertaken work on an objection received from an elector. This work is ongoing and the fee for this work will be agreed upon conclusion of the work.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and National College of Teaching and Leadership Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	6,000	0

Appendix 4

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

13 July 2018

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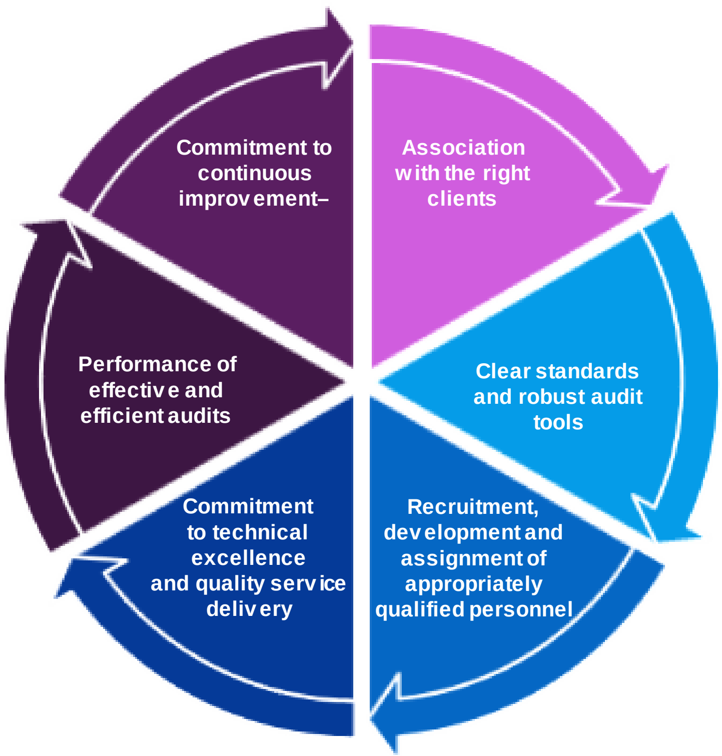
Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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East Sussex County Council

Statement of Accounts

2017/18

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Additional Information

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

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

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

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

Notes to the Accounting Statements Index

Narrative Report

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 2017/18.
- The Statement of Responsibilities – this 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, KPMG LLP, following the completion of the annual audit.
- Annual Governance Statement – the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2017/18. However, any significant events or developments that occur between 31 March 2018 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 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 – this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view.
- The Pension Fund Accounts – the East Sussex Pension Fund is administered by the Council; however, the Pension Fund has to be completely separate from the Council's own finances. This statement is an extract from the Pension Fund Annual Report and summarises the financial position of the East Sussex Pension Fund, including all income and expenditure for 2017/18, together with assets and liabilities as at 31 March 2018.
- A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

Changes to financial reporting requirements and accounting policies

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

The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2017, and applies for accounting periods commencing on or after 1 April 2017.

The Code of Practice on Local Authority Accounting 2017/18 (the Code) highlights the following key updates/changes in accounting practice:

- amendment to the Narrative Reporting to introduce key reporting principles for the Narrative Report;
- updates to the Presentation of Financial Statements to clarify the reporting requirements for accounting policies and going concern reporting;
- Following the amendments in the Update to the 2016/17 Code, changes to the Lease and Lease Type Arrangements, Service Concession Arrangements: Local Authority as Grantor, Financial Instruments – Disclosure and Presentation Requirements;
- Amendments to the Accounting and Reporting by Pension Funds to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Financial Report

The 2017/18 Approved Budget
The Council's 2017/18 net budget comprises three main elements: Council Tax, business rates and Government grant. As part of its deficit reduction plans, the Government has been reducing its grant to local government and will cease to provide a revenue support grant to local government in 2020/21.

The Council's decisions about how to deal with the funding shortfall of £17.0m in 2017/18, need to take account of local circumstances. Some of the key factors influencing our choices are:

- the County's residents are poorer than average for England with full time earnings below the national average. This affects health and wellbeing, increases demand for services and limits the affordability of Council Tax rises;
- poor transport infrastructure and connectivity limiting business growth. This leads to relatively poor local wages, increases unemployment and means that the gap in the Council's income cannot be recovered by funding from growth in business rate receipts.;
- the county's demography – East Sussex has the second highest proportion of older people in the country. People over the age of 85 are the most likely to need support and the number in this age group will rise by 9.5% between 2016 and 2020. Although the proportion of people who are of school age is only expected to rise marginally, the proportion with high need Special Educational Needs and Disability (SEND) is above the national average.

The Council has been able to meet the challenge of delivering savings against a background of diminishing resources by having a clear focus on our four priority outcomes, which are delivered through our services and service change programmes. Our "One Council" approach has provided a collective view about our priorities and investment choices and uses strategic commissioning disciplines to direct our activities to maximise the delivery of the agreed priority outcomes of driving economic growth, keeping vulnerable people safe, helping people help themselves, and making the best use of resources.

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 we can be confident we are making best use of resources. It also ensure 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;
- 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 facilitating 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.
- 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 our delivery plans for our 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. It was based on the need to make savings of £70-£90m between 2016/17 and 2018/19, with further savings in the period to 2021/22 as funding continues to be constrained whilst demands for our services grows.

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 new programme, based on an assumption of significantly reduced future funding, contains only minimum provision for school places, highways, building maintenance, ICT and house adaptations. Under the Government's future plans locally raised business rates will be an increasingly important source of income for the Council so supporting local economic growth will be important. Increasing the health and wellbeing of residents will also be improved by access to better jobs and therefore help mitigate demand for services. The inability to fund investment in economic growth will therefore have a number of negative impacts.

The revenue budget for 2017/18 was presented to Council on Tuesday, 7th February, 2017. Please see the attached link to the report on the Council's website: https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=2580&Ver=4
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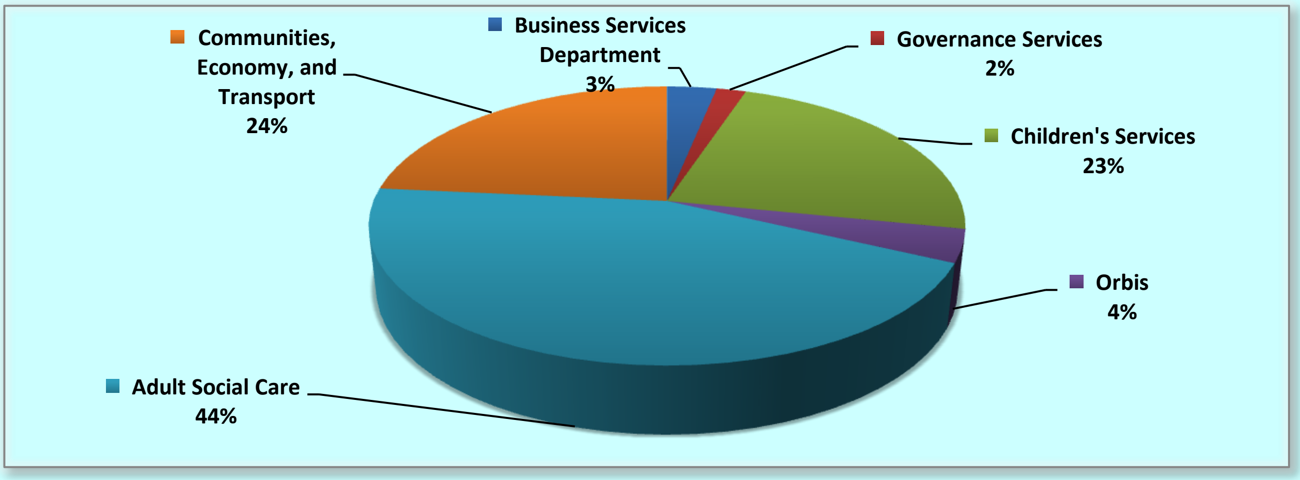
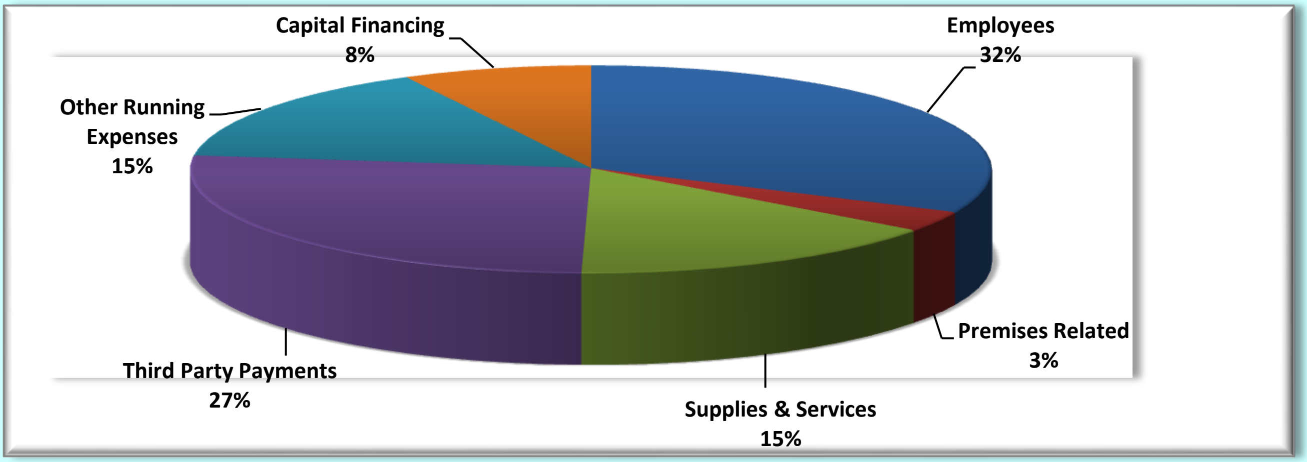
So how much was spent on the revenue account

The Expenditure and Funding Analysis (EFA) on page 43 shows how the Council money is spent and where the money comes from. The Council services expenditure is presented in the chart below.



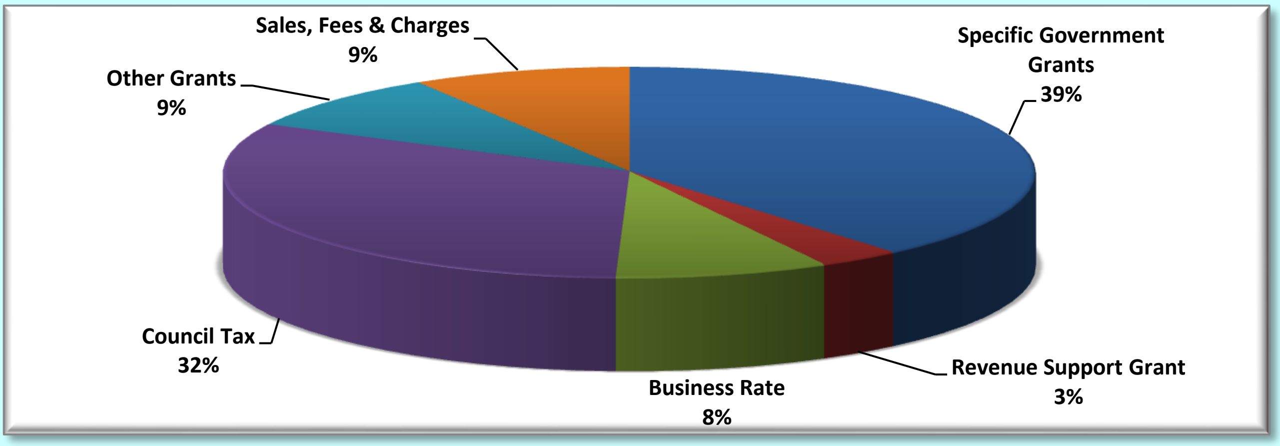
The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 32% of the expenditure. Running expenses including costs of premises at 3%, supplies and services at 15% and third party payments account for 27% with other expenses at 15%. 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 8%.

Where the money came from



The chart shows that 39% of our income came from Specific Government grants, 32% came from residents through Council Tax, 9% from other grants, the Business Rates at 8%, and 9% of our income came from users of our services, with Revenue Support Grant reducing to just 3% 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 taken by directorates to manage potential variations within their cash limited budgets. The table below shows actual net spending of £364.50m during 2017/18, based on the total cost of providing services including charges for support services, treasury management and use of assets.

Throughout 2017/18, the Council has been mindful of the need for further reductions in future years and managed the budgets accordingly. During this period of austerity, sound financial management is essential to ensure long term success and stability.

The net service budget for the year was £325.91m (including Dedicated Schools Grant (DSG)), with total actual expenditure of £326.50m, i.e. services overspend of £0.59m. There are no new material variations and as previously reported (i.e., within the Council's Monitoring Q3 report) this will be managed within the unused general contingency and Treasury Management activities underspend.

The Council's general fund balance of £10.0m at the year end is in line with the target minimum level of 2.5% (actual 2.74%) of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and does reconcile to the analysis contained in the Expenditure and Funding Analysis (EFA) on page 44. The table below sets out the revenue budget for 2017/18 using the standard management reporting format and how these compare with outturn:

Departments	**Current Estimate**	**Actual Outturn**	**Variation**
	£m	**£m**	**£m**
Adult Social Care	168.58	169.15	(0.57)
Public Health	-	-	-
Governance Services	7.28	7.25	0.03
Children's Services	68.56	70.14	(1.58)
Orbis	15.34	14.58	0.76
Business Services	5.99	5.89	0.10
Communities, Economy, and Transport	60.17	59.50	0.67
Service Spend (incl. DSG Related)	**325.91**	**326.50**	**(0.59)**
Corporate Budgets	17.65	18.27	(0.62)
Treasury Management / Corporate Budget	20.94	19.73	1.21
Net Expenditure	**364.50**	**364.50**	**-**
Financed from:			
	£m	**£m**	**£m**
Revenue Support Grant	26.73	26.73	-
Business Rate Pool	1.85	1.85	-
Business Rate Top-up	58.62	58.62	-
Business Rate Retention	10.91	10.91	-
Council Tax	257.38	257.38	-
Council Tax adjustments for previous years	4.07	4.07	-
Transition Grant	2.70	2.70	-
New Home Bonus Grant	2.24	2.24	-
	364.50	**364.50**	**-**
Balances:			
	£m	**£m**	
Opening	10.00	10.00	
Added / (withdrawn) during the year	-	-	
Closing	**10.00**	**10.00**	

Earmarked Reserves

The financial statements also set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs 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 Officers duty to consider the robustness of the Councils budgets, the adequacy of reserves and the general fund when they are set annually. This consideration is summarised in the annually published Robustness Statement. 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 50, Note 10 to the Accounting Statements. Current earmarked reserves held at 31 March 2018 totalled £112.1m. Of this £12.8m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £24.8m relates to future funding for the capital programme from 2018/19, and £25.5m 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.

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 2017 for 2017-18 was £95.5m. This was further adjusted to reflect the variation at outturn (March 2017), re-profiling of budgets and approved variations in line with financial regulations and governance (detail of which is shown below).

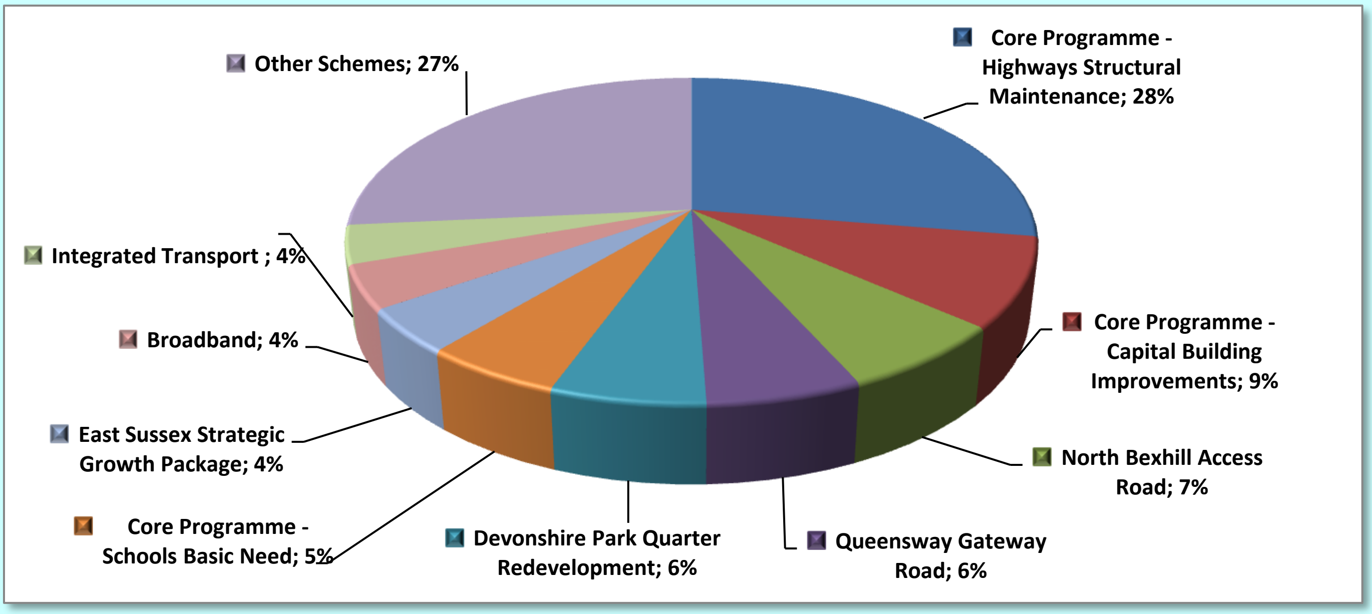
Capital Programme gross movements during 2017/18:

	£m
Budget as per February 2017	**95.5**
Adjustments to reflect 2016/17 Outturn	12.9
Project re-profiling following reviews	(40.2)
Approved Variations	18.0
Budget as per February 2018	**86.2**
Post budget approved variations	1.3
Revised Budget as per March 2018	**87.5**

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 2018 was £87.5m of which £33.4 was supported by scheme specific resources giving a net budget provision of £54.1.

In 2017/18 the County Council spent £81.7m gross of which £26.9m was supported by scheme specific resources giving a net expenditure of £54.8m. The larger schemes that took place during the year included delivering school places, the structural maintenance of roads throughout the county, Queensway Gateway, North Bexhill Access Road, and many other improvements to schools, buildings and roads. Of the £5.8m variation to revised gross budget, £10.2m represents a number of scheme delays including; the need to re-let the groundworks contractor on East Sussex Strategic Growth Package, protracted negotiations on the school site at Ninfield School, a delay in the land purchase for a Special Educational Need school places in Hailsham, planning and procurement issues with Building Improvements at St Mark's and County Hall and a delay in the tender for Parking Machines. This is offset by £4.4m, mainly the Broadband project and Highways Structural Maintenance, being spent in advance.

The graph below shows a high level analysis of the 2017/18 capital expenditure.



As per the approved budget at February 2018 (excluding 2017/18 slippage), in 2018/19 the County Council plans to invest £99.3m in capital projects. The planned funding for this is:

	£m
Borrowing	23.5
Scheme Specific grants and contributions	24.9
Non specific grants	21.0
Capital reserves	21.0
Capital Receipts	0.6
Revenue contributions	8.3
Total resources	**99.3**

The Balance Sheet

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

At 31 March 2017 £m	Description	At 31 March 2018 £m
938,364	Long Term Assets (including Property, Plant & Equipment)	969,665
319,472	Current Assets (including debtors and short term investments)	310,270
(136,591)	Current Liabilities (including creditors and bank overdraft)	(141,030)
(784,909)	Long Term Liabilities	(771,341)
336,336	**Net Assets**	**367,564**
	Represented by:	
145,792	Usable Reserves	148,554
190,544	Unusable Reserves	219,010
336,336	**Total Reserves**	**367,564**

The main changes to the balance sheet in 2017/18 include the actuarial valuation of the Council's pension scheme liabilities and pension reserve on the Balance Sheet, which has reduced by £5.3m during the year. This is as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). Further details are given in Note 44. Usable reserves (see Note 26) has increased due to the revenue grants/contributions (IAS 20) reserves, and indexation was applied to property plant and equipment in 2017/18 as the amount calculated was materially different to the carrying value (Note 14).

Financial Challenges in 2017/18

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, please see the attached link to the report on the Council's website:

https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=2580&Ver=4

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 the obligation at the Balance Sheet date. The level of the Council's provisions is set out in Note 25.

Academy Schools – three schools have or are expected to convert to Academy status in 2018/19. The net book value of their property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2018 are estimated to be £37m.

East Sussex Pension Fund

During the year to 31 March 2018, the overall return in the Fund due to positive performance in equity and other markets was estimated to be 2.4%.

In line with the accounting standard IAS19, the Council's net liability for future pension payments, as shown in the Balance Sheet, has decreased slightly from £415.2m at the start of the year to £409.8m at 31 March 2018. Note 44 to the accounting statement provide detailed information.

The explanations behind this small change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2017, the actuary assumed a discount rate of 0.2% real (2.6% 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 2018, the actuary has advised that a rate of 0.3% real (2.7% nominal) is appropriate. The change in the real discount rate over the year has resulted in a decrease in the liabilities measured at today's prices of around £30m, included in the actuarial profit recognised for the year in the Movement in Reserves Statement (MiRS).

- Asset returns on the Fund in the year to 31 March 2018 were lower than expected for the Council. As noted above, the return on the Fund's assets due to investment performance was estimated to be 2.4%, compared to the expected return on assets at the start of the year of 2.6%.

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 £619.8m, £356.4m and £625.3m in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2018. There is also a liability of approximately £44.1m in respect of LGPS unfunded pensions and £45.5m in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

Treasury Management Borrowing Facilities and Investments

The strategy for 2017/18, agreed in February 2017 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 global events, it is impossible in practical terms to eliminate all credit 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 regularly monitored to ensure that their financial strength and low risk has been maintained.

The average level of funds available for investment purposes during 2017/18 was £253m. 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 for the twelve months to 31 March 2018 was £1.3m at an average rate of 0.53%.

At 31 March 2018, the majority of the Council's external debt was held as long term loans (£267.7m), and no new borrowing was undertaking during 2017/18 as there were no cost effective opportunities to restructure the existing debt portfolio. During the year £4.6m of Public Work Loan Board (PWLB) borrowing matured, there is a steady maturity profile of debt over the medium term. Monitoring processes are in place regarding the trigger rate, and there is an agreed protocol for future borrowing activity to fund the capital programme.

Capital expenditure levels, market conditions and interest rate levels continue to be monitored during the year in order to minimise borrowing costs over the medium to longer-term and 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.

In order to utilise the flexibility, a change was made to the Minimum Revenue Provision (MRP) policy back in 2016/17 to reprofile the provision and allow a base budget reduction in the amount set aside for the repayment of debt. For 2017/18 the MRP provision charge to revenue was £7.82m.

The Councils LOBO Exposure

The Council has LOBO loans which were taken between 2005 and 2010 as a result of proactive approach to repayment/restructuring of PWLB matured debt and the use of LOBOs are considered as part of the borrowing strategy, i.e., a LOBO with EuroHypo was secured at 3.75% as opposed to the PWLB rate at the time of 4.50%. In addition, the loans were taken to generate short-term savings over their primary periods compared with standard short/long-term interest rates.

On 5th July 2017, the Council external auditor (KPMG) received a formal objection from an elector on the Council's 2016/17 Annual Accounts that LOBO Loan original decision is unlawful. On 1st March 2018, the auditor issued a provisional view on the objection with a letter to the objector. Based on the KPMG considerations and assessments, the auditors are provisionally satisfied that the LOBO loans in question were entered into lawfully such that there are no related items of account contrary to law. More specifically KPMG is minded to find:

- that the Council had the statutory power to borrow for the permitted purposes, these being so widely drawn that the borrowing by the Council by way of LOBO loans is likely to be lawful; and
- that the Council took into account all relevant factors including the relevant guidance set out above.

KPMG is currently awaiting a written comments and representation from the objector on the provisional view, following which the auditor will proceed to issue the final view.

Accounting issues that affect Local Authority in 2017/18

Summary of the accounting and legislative issues that affect local government accounting during the 2017/18 year include –

- Going Concern Basis of Accounting - The provisions in the Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.
- Narrative Reporting - reflecting the new principles based framework for the production of the Narrative Report;
- Accounting Policies – Telling the Story of Local Authority Financial Statements;
- Accounting and Reporting by Pension Funds - updated to reflect the 2017/18 Code's requirements for the new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure;
- The 2017/18 Code Guidance Notes include additional clarification in relation to the Expenditure and Funding Analysis – to provide additional guidance to assist accounts preparers in the preparation of the note;
- The Code Guidance Notes also include amendments in relation to the Dedicated Schools Grant (DSG) to include the latest on the disclosure requirements for DSG which have been developed with the Department for Education (DfE).

In 2015 the Government announced the launch of an apprenticeship levy aimed at addressing skills shortages whilst also tackling youth unemployment. The Government has set a target of having 3 million apprenticeships by 2020. From April 2017, all employers with a pay bill of £3m or more have been required to pay the levy, calculated at 0.5% of the paybill. For East Sussex, this equates to a core business levy of approximately £559k per annum and a Schools levy of approximately £448k per annum. In addition, the Government has also set a statutory target for all public sector organisations of 2.3% of their workforce being apprentices. Based on April 2018 headcount, this equates to 103 in the core business and 122 in Schools. To support the introduction of the levy the Council has agreed a workforce led, 'grow our own' approach, ensuring that the levy is complementary to the exiting workforce development and training plans already in place.

Changes to the Closure Timetable for Local Authorities in England - Local authorities in England are aware of the Accounts and Audit Regulations 2015 (the Regulations), which bring forward the timetable for the closure of the accounts in respect of 2017/18 and subsequent financial years. Prior to the period for the exercise of public rights which must include the first 10 working days of June, a local authority in England is required to publish the unaudited statement of accounts. In practical terms this is by 31 May 2018. The Regulations also require that local authorities in England publish their audited statement of accounts by 31 July 2018 (including on the authority's website).

The East Sussex County Council and East Sussex Pension Fund closure timetable's and publication dates were already (within the last few years) in compliance with the 2015 Accounts and Audit Regulations.

Narrative Report

The Council's Stewardship, Responsibilities and Financial Management Polices

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

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

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

These Financial Regulations link with other internal regulatory documents forming part of the County Council's Constitution, including Standing Orders, Standard Financial Procedures and Departmental Guidance and Procedures. This Statement of Accounts is part of that stewardship process, i.e., the process for being publicly accountable for collection and application of public money. The responsibilities of the Council and its designated Chief Finance Officer, is set out in the Constitution.

The Annual Governance Statement, which accompanies this Statement of Accounts, covers more than just financial matters and is set out in full on pages 15 - 16.

Our financial framework relies upon the quality of the financial systems of the Council. There is a commitment 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 2017/18 Audit Opinion and Certificate is available on pages 13 - 14.

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;
- 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 2018.

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

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

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- 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 control 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 2018.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)
17 July 2018

Independent Auditor's report to East Sussex County Council

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

We have audited the financial statements of East Sussex County Council for the year ended 31 March 2018 on pages xx to xxx. 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 2017/18.

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Independent Auditor's report to East Sussex County Council

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

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Joanne Lees
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 4GL

17 July 2017

1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussexcc.gov.uk or can be obtained from the Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. Purpose of the governance framework

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

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

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2018 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 Operating Officer and the Chief Finance Officer;
- the work of the Monitoring Officer and the Statutory Officers' Group ;
- the risk management arrangements, including the maintenance and regular review of strategic risks by Chief Officers and departmental risks by management teams;
- the work of the internal audit service including their quarterly progress reports, on-going action tracking arrangements and overall annual report and opinion;
- the external auditors in their audit annual letter and 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;
- strategies for communication and consultation with the people of East Sussex and our key stakeholders
- clear guidance that promotes good governance in our partnership working;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, ICT security, access to information, data protection and project management.

5. Assurance and Significant Governance Issues

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

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

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

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities. The Council, through the Directorate Assurance Statements and the Chief Finance Officer's Assurance Statement, has identified a number of areas where it wishes to enhance its governance arrangements.

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

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

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

Cllr Keith Glazier
Leader and Chairman of the Governance Committee
17 July 2018

Becky Shaw
Chief Executive
17 July 2018

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 County Fund balance and Schools balance movements in the year following those adjustments.

2016/17	**County Fund Balance**	**Schools Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Earmarked Reserves**	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2016 - Notes 26 and 27	**9,999**	**14,930**	**2,432**	**17,989**	**120,588**	**165,938**	**132,740**	**298,678**
Movement in Reserves during 2016/17								
Total Comprehensive Income and Expenditure	**(22,488)**	**-**	**-**	**-**	**-**	**(22,488)**	**60,146**	**37,658**
Adjustments between accounting basis & funding basis under regulations - Note 9	8,589	-	(2,382)	(3,865)	-	2,342	(2,342)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(13,899)**	**-**	**(2,382)**	**(3,865)**	**-**	**(20,146)**	**57,804**	**37,658**
Transfers to / (from) Earmarked Reserves - Note 10	13,899	(4,474)	-	-	(9,425)	-	-	-
Increase / (Decrease) in Year	**-**	**(4,474)**	**(2,382)**	**(3,865)**	**(9,425)**	**(20,146)**	**57,804**	**37,658**
Balance at 31 March 2017 - Notes 26 and 27	**9,999**	**10,456**	**50**	**14,124**	**111,163**	**145,792**	**190,544**	**336,336**

2017/18	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2017 - Notes 26 and 27	**9,999**	**10,456**	**50**	**14,124**	**111,163**	**145,792**	**190,544**	**336,336**
Movement in Reserves during 2017/18								
Total Comprehensive Income and Expenditure	**(37,858)**	**-**	**-**	**-**	**-**	**(37,858)**	**69,086**	**31,228**
Adjustments between accounting basis & funding basis under regulations - Note 9	39,158	-	1,183	278	-	40,620	(40,620)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**1,300**	**-**	**1,183**	**278**	**-**	**2,762**	**28,466**	**31,228**
Transfers to / (from) Earmarked Reserves - Note 10	(1,300)	278	-	-	1,023	-	-	-
Increase / (Decrease) in Year	**-**	**278**	**1,183**	**278**	**1,023**	**2,762**	**28,466**	**31,228**
Balance at 31 March 2018 - Notes 26 and 27	**9,999**	**10,734**	**1,233**	**14,402**	**112,186**	**148,554**	**219,010**	**367,564**

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.

2016/17				2017/18		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
249,612	(70,020)	179,592	Adult Social Care	265,466	(90,557)	174,909
32,636	(29,911)	2,725	Public Health	31,517	(28,527)	2,990
8,474	(589)	7,885	Governance Services	9,998	(1,386)	8,612
640,888	(538,230)	102,658	Children's Services	627,032	(531,663)	95,369
61,372	(33,821)	27,551	Business Services	63,323	(33,361)	29,962
125,338	(49,056)	76,282	Communities, Economy & Transport	142,734	(50,726)	92,008
2,857	(136)	2,721	Corporate Expenditure	5,179	(234)	4,945
1,121,177	**(721,763)**	**399,414**	**Cost of Services**	**1,145,249**	**(736,454)**	**408,795**
13,259	-	13,259	Other operating expenditure - Note 11	20,245	-	20,245
36,243	(2,880)	33,363	Financing and investment income and expenditure - Note 12	31,943	(2,831)	29,112
-	(423,548)	(423,548)	Taxation and non-specific grant income - Note 13	-	(420,294)	(420,294)
		22,488	**Deficit on Provision of Services**			**37,858**
		(43,871)	Surplus on revaluation of non-current assets – Note 27			(34,395)
		(16,275)	Actuarial gains on pension assets or liabilities – Note 44			(34,691)
		(60,146)	**Other Comprehensive Income and Expenditure**			**(69,086)**
		(37,658)	**Total Comprehensive Income and Expenditure**			**(31,228)**

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 2017			31 March 2018
£000		**Note**	**£000**
924,611	Property, Plant & Equipment	14	943,016
657	Heritage Assets	17	690
1,159	Investment Property	15	7,849
8,708	Intangible Assets	16	6,565
1	Long Term Investments	20	7,501
3,228	Long Term Debtors	22	4,044
938,364	**Long Term Assets**		**969,665**
242,137	Short Term Investments	20	214,256
3,133	Assets Held for Sale	21	4,009
6,321	Payments in Advance	22	5,511
49	Inventories		25
43,497	Short Term Debtors	22	41,184
24,335	Cash and Cash Equivalents	23	45,285
319,472	**Current Assets**		**310,270**
(16,289)	Income in Advance	24	(16,032)
(6,063)	Short Term Borrowing	20	(8,613)
(28,511)	Bank overdraft and Accrued balance for third parties	23	(31,221)
(1,783)	Provisions	25	(2,079)
(83,945)	Short Term Creditors	24	(83,085)
(136,591)	**Current Liabilities**		**(141,030)**
(415,151)	Liabilities related to defined benefit pension schemes	44	(409,788)
(13,557)	Provisions	25	(12,452)
(270,809)	Long Term Borrowing	20	(267,513)
(5,198)	Capital Grants & Contributions Receipts in Advance	37	(5,461)
(80,194)	Other Long Term Liabilities	42	(76,127)
(784,909)	**Long Term Liabilities**		**(771,341)**
336,336	**Net Assets**		**367,564**
145,792	Usable Reserves	26	148,554
190,544	Unusable Reserves	27	219,010
336,336	**Total Reserves**		**367,564**

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2018 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 17 July 2018

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.

2016/17		**2017/18**
£000		**£000**
22,488	Net deficit on the provision of services	37,858
(75,768)	Adjustments to net deficit on the provision of services for non-cash movements	(106,520)
40,987	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	29,283
(12,293)	Net cash inflow from Operating Activities - Note 28	(39,379)
10,635	Investing Activities - Note 29	12,895
3,539	Financing Activities - Note 30	8,244
1,881	**Net (increase) / decrease in net cash and cash equivalents - Note 23**	**(18,240)**
2,295	Net cash and cash equivalents at the beginning of the reporting period - Note 23	4,176
4,176	**Net cash and cash equivalents at the end of the reporting period- Note 23**	**(14,064)**

The Net Cash and cash equivalents figures above include ‘Cash and cash equivalents’ and ‘Bank overdraft and Accrued balance for third parties’. The overall balance at 31 March 2018 is a net cash in-hand position of £14.064m.

Notes to the Accounting Statements

1. Authorisation of the Statement of Accounts

Authorisation of 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 xx July 2018) is published with an audit opinion.

2. Accounting Policies

i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide legally binding guidance on Local Authority Accounting. The Statement of Accounts, which includes the accounting statements for East Sussex Pension Fund, summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted for the Council's Accounting Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. 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 Council operates.

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

ii. Accruals of Income and Expenditure

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

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

iii. Revenue Recognition

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

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

iv. Debtors and Creditors

We record all material transactions on the basis of income and expenditure. In order to achieve this we account for actual or estimated debtors and creditors at the end of the year, except in two cases:

- Charges for utilities (gas, electricity and telephones) are not accrued, so long as we have paid for a full twelve months during each financial year;
- Accruals are generally not raised where amounts are immaterial, although managers' discretion may be used. This exception has no material effect on the financial statements.

Most accounts for Trust Funds are kept on a receipts and payments basis.

Lump sum payments relating to redundancy cases are accounted for in the period when the related decision was taken.

v. Cash and Cash Equivalents

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

The Code of Practice defines cash equivalents as highly liquid investments that are readily convertible to known amounts of cash and any investment that could be recalled the same day without penalty, which includes call accounts, money market funds and instant deposits. However, the Council uses these products for both short term cash flow requirements and investment gain purposes. The Council therefore defines only its accounts that are held for cash flow requirements as a cash equivalent used for short term cash flow requirements. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

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

vi. Exceptional Items

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

viii. Charges to Revenue and Non-Current Assets

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

- Depreciation is provided for on all assets used by the relevant service with a determinable finite life (except for investment properties, assets under construction and community assets), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible assets attributable to the service.

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

ix. Employee Benefits

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

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, 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 Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pension Scheme
- The NHS Pension Scheme, 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;
- unitised securities – current bid price;
- property – market value.

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

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

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

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

x. Events After the Balance Sheet Date

The accounts have taken into consideration any material event after the balance sheet, which are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is 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.
- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- *Early repayment of loans* - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Movement in Reserves Statement on the County Fund Balance, after debits and credits have been made to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

Financial Assets

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

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

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

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

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

Available-for-Sale Assets

Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values 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
- equity shares with no quoted market prices – independent appraisal of company valuations.

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.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xii. Foreign Currency Transaction

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

xiii. Government Grants and Contributions

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

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

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

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

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

xiv. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The expected useful life is normally upto 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 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 and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xviii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xix. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

The Council as Lessor

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and;

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

xx. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

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. The only exception being in respect of spending by schools from Devolved Formula capital grants which in accordance with the Department for Education Conditions of Grant is all treated as capital expenditure in the accounts with no lower limit.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- operational land, buildings and plant - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.
- 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 componentised;

- De-recognition of a component of PP&E takes place when no future economic benefits are expected from its use (i.e. its service potential is used up) and it is removed from the Balance Sheet;

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

- For revalued assets (as part of the rolling programme), the individual valuation sheets produced by the external valuers would be compared to the beacon analysis. If a particular asset conforms to the components identified in the beacon, and it is significant in relation to the total value, those percentages will be applied to the carrying value. If it does not conform to the beacon, revised percentages will be obtained;

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets (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 assets 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	Individually assessed by valuers, usually up to 60 years
Vehicles	Individually assessed on acquisition, usually up to 10 years
IT equipment	Individually assessed on acquisition, usually up to 5 years
Other plant, furniture and equipment	Individually assessed on acquisition, usually up to 20 years
Infrastructure	40 years for new roads, otherwise 20 years
Infrastructure land	Not depreciated as an infinite life expectancy
Community land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated until the asset becomes operational
Surplus Buildings	Individually assessed by valuers
Surplus Land	Not depreciated as an infinite life expectancy

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. 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 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 owned 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;

- finance cost – an interest charge (based on Internal Rate of Return of 9.85% 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

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination).

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Closed Landfill Sites

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

Contingent Liabilities

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

Contingent Assets

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

xxiv. Reserves

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

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

xxv. Revenue Expenditure Funded from Capital under Statute

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

In addition, the Government may direct the Council to treat as capital expenditure items, which would normally count as revenue. These would not result in an asset or an increase to the value of existing assets and are therefore treated as revenue expenditure funded from capital under statute.

xxvi. Value Added Tax (VAT)

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

xxvii. Interest Charges

We show the accrued interest associated with a loan as part of the carrying value of the loan. Loans are included on the Balance Sheet at amortised cost based on the Effective Interest Rate (EIR) method.

Where no EIR calculation has been undertaken, the accrued interest will be charged to the Income and Expenditure Accounts and added to the value of the loan. This will increase the carrying value of the loan until such time as the interest is paid.

xxviii. Redemption of Debt

There is a legal requirement for the Council to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement of an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. The Council adopted the Asset Life Method (annuity method) as a result of any PFI assets coming on the Balance Sheet and any related Minimum Revenue Provision (MRP) will be equivalent to the “capital repayment element” of the annual service charge payable to the PFI Operator and for finance leases. MRP will also be equivalent to the “capital repayment (principal) element” of the annual rental payable under the lease agreement. This is not a cost to the Comprehensive Income & Expenditure Statement but is charged to the County Fund through the Movement in Reserve Statement.

xxix. Pension Fund

Foreign income is translated into sterling at the exchange rate at the time of the transaction. The expenditure of the Fund includes all valid benefit claims arising during the financial year.

xxx. Carbon Reduction Commitment (CRC)

Carbon Reduction Commitment (CRC) - This is a national scheme introduced by Central Government to incentivise organisations within the public and private sectors to reduce their carbon emissions. The scheme focuses specifically on buildings and the carbon emissions attributable are based on the organisations' consumption of electricity, gas, and fuel oil.

The Carbon Reduction Commitment Energy Efficiency Scheme is in Phase 2 and the Council has fallen below the threshold requirement, i.e., non-qualification for Phase 2 of the CRC Scheme.

xxxi. Capital Expenditure on Assets Owned by Others

The expenditure is charged to revenue on the basis of the benefit obtained by the service from the expenditure in that period. Any grant income that funded that expenditure is also credited to the relevant service.

Expenditure on academy or voluntary aided schools assets, i.e. properties not owned by the Council, are charged to the Comprehensive Income and Expenditure Statement, and legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as Property, Plant and Equipment. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

xxxii. Council Tax and Business Rates

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

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

xxxiii. Heritage Assets

The Council's Heritage Assets are managed by East Sussex Record Office, which holds the historic and administrative archives for the County of East Sussex and, under an SLA agreement, for the City of Brighton & Hove. These comprise records dating from 1101 to the present and they are held for, increasing the knowledge, understanding and appreciation of the Council's history and local area, ensuring their preservation and providing public access to information recording the county's and city's heritage.

The archives, ranging from a single piece of paper to thousands of documents, are held by the Council under a variety of terms, the most common ones being deposit (long-term loan), gift or purchase. The majority of archives held by us are on deposit.

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

Art Collection

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

Equipment and other Artefacts

- The Council considers that obtaining valuations for the vast majority of equipment and other artefacts would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. Other than the small number of items that have been acquired recently, i.e., bequeathed to the Council, the Council does not recognise this collection of heritage assets on the Balance Sheet.

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

Archaeology

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

Heritage Assets – General

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

xxxiv. Fair Value Measurement

The Council measures some of its non-financial assets, 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 measures 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.

When measuring the fair value of a non-financial asset, the Council external Valuers 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 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.

Notes to the Accounting Statements

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 2018/19 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2018. 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:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.
- IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.
- IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 30) in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.
- IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses) applies to deferred tax assets related to debt instruments measured at fair value. The Council does not have any such debt instruments.
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).
- Telling the Story, Improving the Presentation of Local Authority Financial Statements.

The other narrow scope amendments, issues, and International Financial Reporting Interpretations Committee (IFRIC) included in the consultation on the 2018/19 Code are listed below:

- IAS 40 Investment Property: Transfers of Investment Property,
- Annual Improvements to IFRS Standards 2014-2016 Cycle,
- IFRIC 22 Foreign Currency Transactions and Advance Consideration were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore they have been rolled forward into the development programme for the 2019/20 Code, and
- Ministry of Housing, Communities and Local Government Consultation on the Prudential Framework for English Authorities

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 2018 and there is therefore no impact on the 2017/18 Statement of Accounts.

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:

- 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 2021. 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.

- The Council has developed certain criteria based on IAS 16 and IAS 40 in making judgements about whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purposes (i.e. Sackville House Lewes). If these portions could be sold separately (or leased out separately under a finance lease), the Council would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

- Recognition of Government Grants and Contributions - Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. The Council has made a judgement that a grant or contribution will be classed as conditional if the terms include a repayment clause that require that the grant monies will be repaid if not used.

- Leases - The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.

- The Council in its capacity as the Pension Fund Administering Authority has in place arrangements requiring the Council to make specified payments to reimburse the Pension Fund for a loss it would incur if the 'Admission Body' fails to make payments due under the admission into Pension Fund Scheme Agreement (Financial guarantee contracts). Three Admission Bodies have agreed to deposit a sum of money (£61,000 including interest received) with the Council 'Administering Authority' in order to meet a level of risk exposure arising by virtue of any premature termination, or cessation, of the Admission Agreement which has been actuarially assessed to the satisfaction of the Council 'Administering Authority', the Scheme Employer and the Admission Body. This agreement is in place for policy reasons, and for ensuring the Council continues to provide pension fund administration.

- The Council operates partnership working arrangements with neighbouring local authorities - the Surrey County Council and Brighton and Hove City Council under the umbrella of Orbis. It delivers support services to the three authorities and includes HR & OD; Finance (including Internal Audit); Procurement; Business Operations; IT & Digital; Property and; Revenues and Benefits. The Council believes that it is not necessary to impair any non-current assets in light of these partnership working arrangements and any current proposals for changes to the way the services are to be delivered by the Council.

- **Accounting for Schools – Balance Sheet Recognition of 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:

  - 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 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 split by Primary, Secondary and Special schools:

Type of School	Primary	Secondary	Special	Total
Community	48	9	-	57
Special	-	-	2	2
Voluntary Controlled	45	-	-	45
Voluntary Aided	26	-	1	27
Foundation / Trust	-	1	-	1
Academy	30	16	9	55
Total	**149**	**26**	**12**	**187**

- As at 31 March 2018, the Council accounts with five Money Market Funds plus a NatWest SIBA account which were held for cash flow requirement reasons and are included in the cash and cash equivalents. The accounts held for cash flow purposes will continue to change dependent on the relevant movement in money market conditions and the Council's Treasury Management Strategy, i.e. relative yield, security and liquidity or changes in any relevant statutory guidance or code of practice. The Council's policy on the classification of cash and cash equivalent, and investments, is set out in the accounting policy note v.

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

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

The accounting statements contain estimates and assumptions about the future or events that are otherwise uncertain, which affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This means that the Council is required to make estimates and assumptions. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or in future periods if it also affects future periods. The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property Plant and Equipment	The Council estimates the useful lives of Property, Plant and Equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of Property, Plant, and Equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of Property, Plant, and Equipment is based on external technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Property, Plant and Equipment would increase recorded expenses and decrease non-current assets. The 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.	The total depreciation and amortisation charged in 2017/18 is £46.6m and the net book value of property, plant and equipment at 31 March 2018 is £943.0m. 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 £4.3m for every one year that useful lives had to be reduced. Indexation was applied in 2017/18 as the amount calculated was materially different to the carrying value. The net revaluation gain of the assets indexed was £16.6m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	Impairment / reversal of impairment - The Council has significant investments in Property, Plant and Equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, thus requiring the book value to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future use. Assets / properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least annually.	The Council carries out an annual impairment review of its asset base, which takes into account such factors as the current economic climate. The level of impairment charged in 2017/18 to the Surplus on Provision of Services is £8.3m and £9.4m to the Revaluation Reserve.
Allowance for doubtful debts	The Council makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.	An estimate of the likely uncollectability of outstanding debtors is made each year and a charge made to the Comprehensive Income and Expenditure Statement. Debtors are then carried on the Balance Sheet net of this allowance. A decrease in the provision for bad debt adjustment of £0.150m was made in 2017/18, bringing the total allowance for impairment to £1.261m at 31 March 2018.
Pension Liability	The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the Balance Sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuary makes a number of critical assumptions affecting these estimates. Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, life expectancy, and the annual rate of compensation increase, which have a direct and potentially material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the financial statements. However, the assumptions interact in complex ways.	The value of the Pension Liability is calculated by a qualified Actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund. During 2017/18, the Council's actuary advised that the net pension's liability has decreased from £415.2m at the start of the year to £409.8m at 31 March 2018. Note 44 to the Accounting Statements provide detailed information.
Provisions and Reserves	The recognition of provisions involves assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits. To the extent that an outflow of resources embodying economic benefits is probable and a reliable estimate can be made, a provision is recognised. The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability. Insurance Provision & Reserve - This estimate of the potential liability is provided through an independent review undertaken according to standard actuarial techniques, (JLT Public Sector Risks) based on outstanding claims already submitted (provision) and an estimate of potential claims that have yet to be made (reserve). An increase over the forthcoming year in either the total number of claims or the estimated average settlement would each have an effect on the provision needed.	In calculating the level of provisions the Council also exercises judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the Council's provisions is set out in Note 25.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Contingent liabilities	The Council has had to make an informed estimate of the likely liability the Council could face if certain events happened in the future. These estimates have been made by an appropriate officer or qualified specialist where appropriate.	Details of the Council's contingent liabilities are set out in Note 45.
Decommissioning landfill sites	The Council has 19 closed landfill sites that require restoration and aftercare. An accounting model has been developed to determine the required provision for these future costs taking into consideration the annual costs relating to leachate removal and water quality monitoring. The Council has a legal obligation to restore, monitor and maintain landfill sites.	The Code requires that the costs have to be balanced by a provision, which meets the requirements of IAS 37. The Council has a set aside £9.6m provision (see Note 25), which it believes is appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.
Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2017-18 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2018. The estimate has been calculated using the data provided by the five district authorities across East Sussex, using the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2018.	Business Rates appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2017/18 has been calculated at £1.141m.
Fair Value estimations	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: • For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; • For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. 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. Where Level 1 inputs are not available, the authority employs RICS qualified valuers (Montagu Evans) 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 and pensions team on a regular basis regarding all valuation matters.	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. 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. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets 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.

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 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.

2016/17	**As Reported for Resource Management**	**Adjustment to arrive at the net amount chargeable to County Fund**	**Net Expenditure Chargeable to the County Fund**	**Adjustments between the Funding and Accounting Basis (Note 9)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**	**£000**	**£000**
Adult Social Care	166,471	9,832	176,303	3,289	179,592
Public Health	-	2,695	2,695	30	2,725
Governance Services	7,499	279	7,778	107	7,885
Children's Services	67,435	6,287	73,722	28,936	102,658
Business Services	17,336	1,487	18,823	8,728	27,551
Communities, Economy & Transport	51,901	(1,597)	50,304	25,978	76,282
Total	**310,642**	**18,983**	**329,625**	**67,068**	**396,693**
Corporate Expenditure	6,818	-	6,818	(4,097)	2,721
Net Cost of Services	**317,460**	**18,983**	**336,443**	**62,971**	**399,414**
Other Income and Expenditure from the Expenditure and Funding Analysis					
Other Corporate Expenditure	51,513	(5,084)	46,429	193	46,622
Financing	(368,973)	-	(368,973)	(54,575)	(423,548)
Total	**(317,460)**	**(5,084)**	**(322,544)**	**(54,382)**	**(376,926)**
Deficit for the Year	**-**	**13,899**	**13,899**	**8,589**	**22,488**

County Fund Balance at 1 April 2016	**(9,999)**
Less: Deficit for the Year	13,899
Add: Transfer from Reserves	(13,899)
County Fund Balance at 31 March 2017	**(9,999)**

2017/18	As Reported for Resource Management	Adjustment to arrive at the net amount chargeable to County Fund	Net Expenditure Chargeable to the County Fund	Adjustments between the Funding and Accounting Basis (Note 9)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Adult Social Care	169,148	(2,484)	166,664	8,245	174,909
Public Health	-	2,802	2,802	188	2,990
Governance Services	7,249	850	8,099	513	8,612
Children's Services	70,135	(2,973)	67,162	28,207	95,369
Business Services	20,458	(2,099)	18,359	11,603	29,962
Communities, Economy & Transport	59,545	(7,786)	51,759	40,249	92,008
Total	**326,535**	**(11,690)**	**314,845**	**89,005**	**403,850**
Corporate Expenditure	7,240	-	7,240	(2,295)	4,945
Net Cost of Services	**333,775**	**(11,690)**	**322,085**	**86,710**	**408,795**
Other Income and Expenditure from the Expenditure and Funding Analysis					
Other Corporate Expenditure	30,726	10,390	41,116	8,375	49,491
Financing	(364,501)	-	(364,501)	(55,927)	(420,428)
Total	**(333,775)**	**10,390**	**(323,385)**	**(47,552)**	**(370,937)**
Deficit for the Year	**-**	**(1,300)**	**(1,300)**	**39,158**	**37,858**

County Fund Balance at 1 April 2017	**(9,999)**
Less: Deficit for the Year	(1,300)
Add: Transfer from Reserves	1,300
County Fund Balance at 31 March 2018	**(9,999)**

Note - The Adjustment to arrive at the net amount chargeable to County Fund includes Earmarked Reserve movements included in the Amounts As Reported to Management.

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2017/18 has been used to provide services and this note provides a reconciliation of the main adjustments to net expenditure chargeable to the County Fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

(a) Adjustments between Funding and Accounting Basis

Adjustments from County Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
2017/18	**£000**	**£000**	**£000**	**£000**
Adult Social Care	2,618	5,629	(2)	8,245
Public Health	-	188	-	188
Governance Services	-	514	(1)	513
Children's Services	18,036	10,493	(322)	28,207
Business Services	9,531	2,071	1	11,603
Communities, Economy & Transport	38,560	1,687	2	40,249
Total	**68,745**	**20,582**	**(322)**	**89,005**
Corporate Expenditure	-	(2,295)	-	(2,295)
Net Cost of Services	**68,745**	**18,287**	**(322)**	**86,710**
Other income and expenditure from the Expenditure and Funding Analysis	**(59,369)**	**11,042**	**775**	**(47,552)**
Difference between County Fund deficit and CIES deficit in provision of services	**9,376**	**29,329**	**453**	**39,158**

Adjustments from County Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
2016/17	**£000**	**£000**	**£000**	**£000**
Adult Social Care	2,198	1,055	36	3,289
Public Health	-	30	-	30
Governance Services	-	109	(2)	107
Children's Services	27,220	2,080	(364)	28,936
Business Services	8,334	389	5	8,728
Communities, Economy & Transport	25,674	326	(22)	25,978
Total	**63,426**	**3,989**	**(347)**	**67,068**
Corporate Expenditure	-	(4,097)	-	(4,097)
Net Cost of Services	**63,426**	**(108)**	**(347)**	**62,971**
Other income and expenditure from the Expenditure and Funding Analysis	**(68,740)**	**14,584**	**(226)**	**(54,382)**
Difference between County Fund deficit and CIES deficit in provision of services	**(5,314)**	**14,476**	**(573)**	**8,589**

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:

	2016/17 £000	2017/18 £000
Adult Social Care	70,020	90,557
Public Health	29,911	28,527
Governance Services	589	1,386
Children's Services	538,230	531,663
Business Services	33,821	33,361
Communities, Economy & Transport	49,056	50,726
Corporate Expenditure	136	234
Total Income analysed on a segmental basis	**721,763**	**736,454**

(c) The expenditure and income is analysed by nature below:

	2016/17 £000	2017/18 £000
Expenditure		
Employee benefits expenses	327,157	333,725
Other service expenses	474,630	490,712
Support service recharges	288,974	282,709
Depreciation, amortisation, impairment	46,370	50,089
Interest payments	20,289	19,957
Precepts and levies	522	641
Loss on the disposal of assets	12,737	19,604
Total Expenditure	**1,170,679**	**1,197,437**
Income		
Fees, charges and other service income	(67,869)	(73,490)
Interest and investment income	(1,930)	(1,535)
Support service recharges income	(296,128)	(292,854)
Income from council tax & non domestic rates	(369,200)	(363,727)
Government grants and contributions	(413,064)	(427,973)
Total Income	**(1,148,191)**	**(1,159,579)**
Deficit on the Provision of Services	**22,488**	**37,858**

7. Material items of income and expenses

The Council has disposed of the following property, plant and equipment from its Balance Sheet as five schools obtained academy status during 2017/18. This is included within losses on disposals of non-current assets of £22.8m (see Note 11). The assets were transferred for no consideration and the amounts are recognised as losses on disposal.

School	Type of School	£000
Castledown,Hastings	Primary	4,211
Parkland Infant, Eastbourne	Primary	1,817
Parkland Junior, Eastbourne	Primary	1,787
Ocklynge Junior, Eastbourne	Primary	4,716
Shinewater, Eastbourne	Primary	3,210
Total		**15,741**

Comprehensive Income and Expenditure Statement

- Adult Social Care includes expenditure and income of the Better Care Fund (see Note 32).

8. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on xx July 2018. 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 2018, the figures in the accounting statements have been adjusted in all material respects to reflect the impact of this information. The financial statements have not been adjusted for the following events that took place after 31 March 2018 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 – three schools have or are expected to convert to Academy status in 2018/19. The net book value of their property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2018 are shown in the table below.

School	Type of School	Date of Conversion	£000
Hazel Court, Eastbourne	Special	-	4,841
Peacehaven, Peacehaven	Secondary	-	18,656
The Causeway, Eastbourne	Secondary	Sept 2018	13,482
Total			**36,979**

9. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to 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.

County Fund Balance

The County Fund is the statutory fund into which all the receipts of the Council are required to 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 County Fund Balance, which is not necessarily in accordance with proper accounting practice. The County 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.

2017/18	Usable Reserves		
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
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:			
Pensions Costs transferred to / (from) the Pensions Reserve	29,328	-	-
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	775	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(321)	-	-
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):	34,831	-	278
Total Adjustments to Revenue Resources	**64,613**	**-**	**278**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,184)	3,184	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(11,757)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(10,514)	-	-
Total Adjustments between Revenue and Capital Resources	**(25,455)**	**3,184**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(2,000)	-
Total Adjustments to Capital Resources	**-**	**(2,000)**	**-**
Total Adjustments	**39,158**	**1,184**	**278**

2016/17	Usable Reserves		
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
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:			
Pensions Costs transferred to / (from) the Pensions Reserve	14,476	-	-
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	(226)	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(347)	-	-
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):	23,038	-	(3,865)
Total Adjustments to Revenue Resources	**36,941**	**-**	**(3,865)**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(638)	638	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(11,041)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(16,673)	-	-
Total Adjustments between Revenue and Capital Resources	**(28,352)**	**638**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(3,020)	-
Total Adjustments to Capital Resources	**-**	**(3,020)**	**-**
Total Adjustments	**8,589**	**(2,382)**	**(3,865)**

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 2017/18.

Earmarked Reserves	Balance at 1 April 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Strategic Reserves:							
Risk	**6,716**	2,433	(739)	**8,410**	-	-	**8,410**
Priority / Transformation	**6,002**	1,302	(2,145)	**5,159**	725	(1,510)	**4,374**
Financing	**15,416**	3,961	(1,557)	**17,820**	3,463	(5,448)	**15,835**
Service Reserves:							
Capital Programme	**24,857**	8,500	(8,500)	**24,857**	1,047	(1,047)	**24,857**
Corporate Waste	**12,843**	-	-	**12,843**	-	-	**12,843**
Insurance	**6,573**	278	(1,024)	**5,827**	1,396	(1,098)	**6,125**
Other Reserves:							
Public Health	**13,284**	-	(2,788)	**10,496**	1,342	(4,154)	**7,684**
Held on behalf of others	**5,553**	1,662	(1,466)	**5,749**	1,230	(454)	**6,525**
Sub-Total	**91,244**	**18,136**	**(18,219)**	**91,161**	**9,203**	**(13,711)**	**86,653**
Revenue Grants and Contributions	**29,344**	20,002	(29,344)	**20,002**	11,481	(5,950)	**25,533**
Total	**120,588**	**38,138**	**(47,563)**	**111,163**	**20,684**	**(19,661)**	**112,186**

Types of Reserve

General Risk	To manage the potential financial consequences of risks recognised in the Council's risk management arrangements. This aims to cover risks that the Council may need to manage the potential financial consequences, some of which will be while remedial action is taken to remedy the situation e.g. short term.
Priority outcomes and Transformation	Priority outcomes and transformation reserve: to fund the specified initiatives to change, protect and improve Council services, with particular emphasis on: • Invest-to-save • Seed funding for innovation (notably digital) and developments contributing to the County Council's priorities • Investment in the redesign of the way services are delivered
Financing	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.
Corporate Waste	To smooth the large year-on-year budget increases that will be needed to finance the Waste PFI project over the whole life of the service.
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
Schools	Balances in respect of delegated school budgets, extended schools and virtual college.
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 38.

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

	Balance at 1 April 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Balances held by Schools	**14,930**	**26**	**(4,500)**	**10,456**	**278**	**-**	**10,734**

11. Other Operating Expenditure

	2016/17	2017/18
	£000	£000
Levies		
▪ Ashdown Forest Conservators	76	68
▪ Sussex Inshore Fisheries & Conservation Authority	307	432
▪ Environment Agency - Flood & Coastal Erosion	139	141
Losses on the disposal of non-current assets (net of receipts)	12,737	19,604
Total	**13,259**	**20,245**

Note - The 2017/18 losses on the disposal of non-current assets figure of £22.8m (gross of £3.2m receipts) includes the removal of five schools from the Balance Sheet, that have attained Academy status at a value of £15.7m (details are included in Note 7).

12. Financing and Investment Income and Expenditure

	2016/17	2017/18
	£000	£000
Interest payable on debt and finance leases	20,143	19,813
Net interest on pension assets and liabilities	14,581	11,023
Interest receivable	(1,884)	(1,466)
(Increase) / Decrease in Fair Value of Investment Properties	585	(135)
Net income from Investment Properties	-	(39)
Surplus on Trading Undertakings	(62)	(84)
Total	**33,363**	**29,112**

13. Taxation and Non Specific Grant Income

	2016/17	2017/18
	£000	£000
Revenue Support Grant	45,107	26,727
Business Rates	71,071	71,384
Council Tax	242,631	257,381
Council Tax & Business Rates adjustment	4,581	4,068
New Home Bonus Grant	2,879	2,246
Transition Grant	2,704	2,696
Total	**368,973**	**364,502**
Share of Collection Fund (Surplus) / Deficit	227	(775)
Capital Grants and Contributions	54,348	56,567
Total	**423,548**	**420,294**

Note - Transition Grant is being provided to authorities to ease the change from a system based on central government grant to one in which local sources determine a council’s revenue.

14. Property, Plant, and Equipment

Movements in 2017/18:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
At 1 April 2017	**368,035**	**167,859**	**482,850**	**1,943**	**24,096**	**17,904**	**1,062,687**	**85,860**
Additions	14,290	3,951	32,398	-	40	11,178	61,857	31
Revaluation increases recognised in the Revaluation Reserve	12,419	6,874	-	-	7,399	-	26,692	7,148
Revaluation decreases recognised in the Revaluation Reserve	(7,817)	(1,022)	-	-	(571)	-	(9,410)	-
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	5,798	809	-	-	76	-	6,683	1,393
Revaluation decreases recognised in the deficit on the Provision of Services	(9,757)	(1,493)	-	-	(123)	-	(11,373)	(1,294)
Derecognition – disposals	(2,612)	(824)	-	-	(3,507)	-	(6,943)	-
Derecognition – disposals - schools	(11,043)	(4,868)	-	-	-	-	(15,911)	-
Assets reclassified within PPE	4,497	-	93	-	(1,217)	(3,373)	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(3,287)	-	(3,287)	-
Assets reclassified (to) / from Investment Property	(118)				(6,321)		(6,439)	-
At 31 March 2018	**373,692**	**171,286**	**515,341**	**1,943**	**16,585**	**25,709**	**1,104,556**	**93,138**
Accumulated Depreciation and Impairment								
At 1 April 2017	**(15)**	**(13,393)**	**(124,582)**	**-**	**(86)**	**-**	**(138,076)**	**-**
Depreciation charge	(9,123)	(14,136)	(20,667)	-	(25)	-	(43,951)	(3,208)
Depreciation written out to the Revaluation Reserve	6,757	10,351	-	-	6	-	17,114	2,726
Revaluation losses recognised in the deficit on the Provision of Services	2,171	892	-	-	19	-	3,082	482
Derecognition – disposals	-	35	-	-	86	-	121	-
Derecognition – disposals - schools	-	170	-	-	-	-	170	-
At 31 March 2018	**(210)**	**(16,081)**	**(145,249)**	**-**	**-**	**-**	**(161,540)**	**-**
Net Book Value								
At 31 March 2018	**373,482**	**155,205**	**370,092**	**1,943**	**16,585**	**25,709**	**943,016**	**93,138**
At 31 March 2017	**368,020**	**154,466**	**358,268**	**1,943**	**24,010**	**17,904**	**924,611**	**85,860**

Movements in 2016/17:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation								
At 1 April 2016	**349,140**	**163,330**	**451,023**	**1,943**	**21,925**	**8,287**	**995,648**	**77,091**
Additions	17,153	2,416	31,827	-	68	9,617	61,081	829
Revaluation increases recognised in the Revaluation Reserve	18,857	5,992	-	-	6,430	-	31,279	4,222
Revaluation decreases recognised in the Revaluation Reserve	(3,639)	(873)	-	-	(458)	-	(4,970)	(565)
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	9,582	2,069	-	-	179	-	11,830	4,347
Revaluation decreases recognised in the deficit on the Provision of Services	(13,618)	(599)	-	-	(1,823)	-	(16,040)	(64)
Derecognition – disposals	(47)	-	-	-	-	-	(47)	-
Derecognition – disposals - schools	(9,071)	(4,430)	-	-	-	-	(13,501)	-
Assets reclassified within PPE	(206)	(46)	-	-	252	-	-	-
Assets reclassified (to) / from Held for Sale	(116)	-	-	-	(2,477)	-	(2,593)	-
At 31 March 2017	**368,035**	**167,859**	**482,850**	**1,943**	**24,096**	**17,904**	**1,062,687**	**85,860**
Accumulated Depreciation and Impairment								
At 1 April 2016	**(77)**	**(10,895)**	**(105,434)**	**-**	**(85)**	**-**	**(116,491)**	**(54)**
Depreciation charge	(8,797)	(13,086)	(19,148)	-	(108)	-	(41,139)	(2,828)
Depreciation written out to the Revaluation Reserve	7,437	10,028	-	-	96	-	17,561	2,819
Revaluation losses recognised in the deficit on the Provision of Services	1,422	387	-	-	12	-	1,821	63
Derecognition – disposals - schools	-	173	-	-	-	-	173	-
At 31 March 2017	**(15)**	**(13,393)**	**(124,582)**	**-**	**(85)**	**-**	**(138,075)**	**-**
Net Book Value								
At 31 March 2017	**368,020**	**154,466**	**358,268**	**1,943**	**24,010**	**17,904**	**924,611**	**85,860**
At 31 March 2016	**349,063**	**152,435**	**345,589**	**1,943**	**21,840**	**8,287**	**879,157**	**77,037**

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).

Capital Commitments

As at 31st March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years. The major commitments for 2018/19 and thereafter amounting to £1m or more include:

	£000
Highways	88,084
School Places	18,084
Broadband	13,023

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. 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. 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 this 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 £31.41m 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 tales 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, Montagu Evans (a member of Chartered Surveyors and Town Planners), 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. The Council has a three year rolling programme to ensure that carrying value of assets is not materially different to their fair values at the Balance Sheet date. In addition, an annual indexation will 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. The indexation was applied in 2017/18 using different indices for each asset type.

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
Carried as at historical cost	-	31,414	-	31,414
Valued at fair value in:				
31 March 2018	373,692	139,872	16,585	530,149
31 March 2017	-	-	-	-
31 March 2016	-	-	-	-
Gross Valuation	**373,692**	**171,286**	**16,585**	**561,563**

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

As at 31 March 2018, there are fifteen properties classed as surplus, a decrease of thirty from the previous year. Twenty properties have been reclassified as investment properties, six classified as held for sale, two reclassified as other land and buildings, five disposed of and three newly classified as surplus. The fair value hierarchy of surplus assets at 31 March are as follows:

	31 March 2018			
Recurring fair value measurements using:	**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**
Surplus assets (Net Book Value)	-	-	16,585	**16,585**

	31 March 2017			
Recurring fair value measurements using:	**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**
Surplus assets (Net Book Value)	-	-	24,010	**24,010**

The surplus assets are measured at Level 3 in the fair value hierarchy as 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 buildings or vacant building rented out under operating leases without service objectives. During 2017/18 a number of properties have been reclassified from surplus properties to investment properties as they meet the criteria above.

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

	2016/17	**2017/18**
	£000	**£000**
Rental Income from Investment Property	114	153
Direct Operating Expenses arising from Investment Property	-	(114)
Net gain / (loss)	**114**	**39**

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

	2016/17	2017/18
	£000	£000
Balance at start of the year	**1,744**	**1,159**
Net Gains / (Losses) from fair value adjustments	(585)	135
Transfers (to) / from Property, Plant & Equipment	-	6,555
Balance at end of the year	**1,159**	**7,849**

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 office units 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 technique used is the market approach using rent yield. In estimating the fair value of the investment property, the highest and best use is the current use.

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

The fair value hierarchy at 31 March are as follows:

	31 March 2018			
Recurring fair value measurements using:	**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	-	-	1,191	1,191
Farm Business Tenancy	-	-	1,827	1,827
Land	-	-	1,223	1,223
Residential Property	-	-	2,125	2,125
Other	-	-	1,483	1,483
Total	-		**7,849**	**7,849**

	31 March 2017			
Recurring fair value measurements using:	**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	-	-	1,159	**1,159**

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 £2.59m charged to revenue in 2017/18 (£2.23m in 2016/17) was charged to Business Services.

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

	2016/17	2017/18
	£000	£000
Balance at start of year:		
Gross carrying amounts	11,870	12,709
Accumulated amortisation	(1,768)	(4,001)
Net carrying amount at start of year	**10,102**	**8,708**
Purchases	839	452
Transfers	-	-
Amortisation for the period	(2,233)	(2,595)
Net carrying amount at end of year	**8,708**	**6,565**
Comprising:		
Gross carrying amounts	12,709	13,161
Accumulated amortisation	(4,001)	(6,596)
Net carrying amount at end of year	**8,708**	**6,565**

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

	Carrying Amount		Remaining Amortisation (Years)
	31 March 2017	31 March 2018	
Description	£000	£000	
LiquidLogic	3,021	2,393	3 - 6
Desktop Anywhere	952	648	3 - 4
SAP Software	625	521	4 - 6
Microsoft Enterprise Solution	734	510	-
Data Centre	654	436	5
People's Network	349	233	5 – 6
Czone Platform	144	200	4
Compliance Management	335	195	4
Security Incident Management	-	164	7
Web Content Management System	183	137	3 - 6
HRMS Financials	159	127	4
Atrium	144	124	3 - 6
Other	1,408	877	1 - 7
Total	**8,708**	**6,565**	

- LiquidLogic – Adult Social Care and Children's Services client information.
- Desktop Anywhere – Remote access servers.

- SAP Software - SAP is the electronic Enterprise Resource Planning (ERP) system used by the Council for managing financial transactions and Human Resources. This broadly covers Human Resource administration and payroll transactions; financial and management accounting; and purchasing transactions ranging from paying and raising invoices to buying goods.
- Czone – essential information for education providers.
- HRMS Financials – To improve and modernise the service delivery functions.
- Atrium – Corporate Property Asset Management system.

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;
- An art collection within offices at County Hall, Lewes;
- Chattels at Bentley House, Halland;
- Listed buildings and monuments owned by the Council or on Council land.

No individual item in the Record Office or SLAMS is valued at more than £20,000 which is the Council's de-minimus level for capital expenditure to be recognised as an asset in the Balance Sheet. For assets where information on cost or value is not available and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the assets are not included on the Balance Sheet.

Reconciliation of the carrying value of Heritage Asset:

Heritage Assets	**Art Collection**	**Bentley House Chattels**	**The Sugar Loaf Folly**	**Battle Abbey Estate Archives**	**Castle Precincts Wall**	**Total**
Cost or valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
1 April 2011	**31**	**-**	**-**	**-**	**-**	**31**
Revaluation loss	(18)	-	-	-	-	(18)
31 March 2012	**13**	**-**	**-**	**-**	**-**	**13**
Reclassification from PPE	-	644	-	-	-	644
Revaluation loss	-	(160)	-	-	-	(160)
31 March 2013	**13**	**484**	**-**	**-**	**-**	**497**
Revaluation loss	**-**	**-**	**-**	**-**	**-**	**-**
31 March 2014	**13**	**484**	**19**	**-**	**-**	**516**
Donated Asset	**-**	**-**	-	116	**-**	**116**
Revaluation gain	**-**	**-**	13	-	**-**	**13**
31 March 2015	**13**	**484**	**32**	**116**	**-**	**645**
Revaluation Gain	**-**		**7**	**-**	**-**	**7**
31 March 2016	**13**	**484**	**39**	**116**	**-**	**652**
Additions	**-**	**-**	-	-	3	**3**
Revaluation Gain	**-**	**-**	2	-	-	**2**
31 March 2017	**13**	**484**	**41**	**116**	**3**	**657**
Additions	**-**	**-**	-	-	34	**34**
Revaluation Loss	**-**	**-**	(1)	-	-	**(1)**
31 March 2018	**13**	**484**	**40**	**116**	**37**	**690**

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 (Gorringes 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, Firle and Albert Memorial Well, Frant.

Battle Abbey Estate Archives - date from 1101 to the 20th 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 18th century onwards when the estates were owned by the Webster family.

Castle Precincts Wall – remains of castle wall at Lewes Castle.

18. Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital Under Statute represents capital expenditure on assets which are not owned by the Council (e.g. adapting the homes of people with disabilities). Revenue Expenditure Funded from Capital Under Statute is written off in the year in which the expenditure is incurred. However, the financing cost, in terms of interest and Minimum Repayment Provision, is deferred over a number of years. In 2017/18, £18.52m (£17.64m in 2016/17) of the Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 40), and all was written off in the year the expenditure was incurred.

19. 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 27) and total £44m (£49m in 2016/17). Some assets will also lose value on revaluation. In 2017/18, the Council has recognised revaluation losses of £17.7m (£19.2m in 2016/17). Of the £17.7m total, £8.3m (£14.2m 2016/17) has been charged to the Comprehensive Income and Expenditure Statement and £9.4m (£5.0m in 2016/17) to the Revaluation Reserve. The reversal of revaluation losses taken to the Comprehensive Income and Expenditure Statement in 2017/18 totalled £6.7m (£11.8m 2016/17). The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was £1.6m (£2.4m 2016/17). For any impairment losses, the recoverable amount of the assets is reduced to their value in use, which was determined by assessing how much the Council would have to pay to acquire the service potential of the assets that is actually now capable of being used.

20. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
Financial Assets				
Investments				
Loans and receivables	1	7,501	242,137	189,256
Available for sale	-	-	-	25,000
Cash and Cash Equivalents	-	-	24,335	45,285
Debtors				
Loans and receivables	3,228	4,044	27,442	25,312
Total Financial Assets	**3,229**	**11,545**	**293,914**	**284,853**
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	(270,809)	(267,513)	(6,063)	(8,613)
Bank overdraft and accrued balance for third parties			(28,511)	(31,221)
Other Long Term Liabilities				
PFI and finance lease liabilities at amortised cost	(80,108)	(76,027)	-	-
Financial Guarantees at amortised cost	(62)	(68)	-	-
Long Term Creditors at amortised cost	(24)	(31)	-	-
Total Other Long Term Liabilities	**(80,194)**	**(76,126)**	**-**	**-**
Creditors				
PFI and finance lease liabilities at amortised cost	-	-	(3,815)	(4,083)
Financial liabilities at amortised cost	-	-	(65,934)	(65,185)
Total Financial Liabilities	**(351,003)**	**(343,639)**	**(104,323)**	**(109,102)**

Income, Expense, Gains and Losses

2016/17	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Total
	£000	£000	£000	£000
Interest expense	(20,143)	-	-	(20,143)
Total expense in Deficit on the Provision of Services	**(20,143)**	-	-	**(20,143)**
Interest income	-	1,884	-	1,884
Total income in Deficit on the Provision of Services	-	**1,884**	**-**	**1,884**
Net gain / (loss) for the year	**(20,143)**	**1,884**	**-**	**(18,259)**

2017/18	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Total
	£000	£000	£000	£000
Interest expense	(19,813)	-	-	(19,813)
Total expense in Deficit on the Provision of Services	**(19,813)**	-	**-**	**(19,813)**
Interest income	-	1,418	48	1,466
Total income in Surplus on the Provision of Services	-	**1,418**	**48**	**1,466**
Net gain / (loss) for the year	**(19,813)**	**1,418**	**48**	**(18,347)**

Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value but for which fair value disclosures are required

The Council has no financial assets that are carried at fair value, so all financial assets and liabilities held are classified as loans and receivables and long term debtors and creditors and are carried in the Balance Sheet at amortised cost.

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

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- 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;
- Estimated ranges of interest rates at 31 March 2018 of 2.6% to 8.5% for loans payable, based on new lending rates for equivalent loans at that date.

Financial Assets

- No early repayment or impairment is recognised;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of PWLB loans at 31 March 2018 of £357.2m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest Rate.

A supplementary measure of the fair value as a result of its PWLB commitments for fixed interest rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £240.1m would be valued at £320.1m. If the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £117.2m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £357.2m.

The fair values calculated are as follows:

Financial Liabilities	**31 March 2017**		**31 March 2018**	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
PWLB Debt	(240,795)	(371,339)	(240,056)	(357,211)
Non PWLB Debt	(35,900)	(67,514)	(35,900)	(67,263)
Other Short Term Borrowing	(177)	(177)	(170)	(170)
Bank overdraft and accrued balance for third parties	(28,511)	(28,511)	(31,221)	(31,221)
PFI Liabilities	(83,924)	(124,281)	(80,110)	(112,593)
Financial Guarantees	(61)	(61)	(68)	(68)
Current Creditors	(65,934)	(65,934)	(65,185)	(65,185)
Long Term Creditors	(24)	(24)	(31)	(31)
Total	**(455,326)**	**(657,841)**	**(452,741)**	**(633,742)**

The fair value of the borrowings and PFI liability is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2018, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	**31 March 2017**		**31 March 2018**	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Long Term Deposits	-	-	7,500	7,472
Short Term Deposits	242,137	242,137	189,256	189,256
Money Market Funds	23,800	23,800	70,150	70,150
Other Cash and Cash Equivalents	535	535	135	135
Current Debtors	27,442	27,442	25,312	25,312
Long Term Debtors	3,229	3,229	4,046	4,046
Total	**297,143**	**297,143**	**296,399**	**296,371**

Current debtors are carried at cost, as this is a fair approximation of their value. The fair value of the assets is equal to the carrying amount because the Council's portfolios of investments are all short term.

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

The fair value hierarchy at 31 March 2018 and 31 March 2017 are as follows:

	31 March 2018			
Recurring fair value measurements using:	**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**
Financial liabilities				
PWLB Debt	-	(357,211)	-	(357,211)
Non PWLB Debt	-	(67,263)	-	(67,263)
Other Short Term Borrowing	-	(170)	-	(170)
Bank overdraft and accrued balance for third parties	-	(31,221)	-	(31,221)
PFI Liabilities	-	-	(112,593)	(112,593)
Financial Guarantees	-	(68)	-	(68)
Current Creditors	-	(65,185)	-	(65,185)
Long Term Creditors	-	(31)	-	(31)
Total	**-**	**(521,149)**	**(112,593)**	**(633,742)**
Financial assets				
Long Term Deposits	-	7,472	-	7,472
Short Term Deposits	-	189,256	-	189,256
Money Market Funds (CNAV)	45,150	-	-	45,150
Available for Sale (VNAV MMFs)	25,000	-	-	25,000
Other Cash and Cash Equivalents	-	135	-	135
Current Debtors	-	25,312	-	25,312
Long Term Debtors	-	4,046	-	4,046
Total	**70,150**	**226,221**	**-**	**296,371**

	31 March 2017			
Recurring fair value measurements using:	**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**
Financial liabilities				
PWLB Debt	-	(371,339)	-	(371,339)
Non PWLB Debt	-	(67,514)	-	(67,514)
Other Short Term Borrowing	-	(177)	-	(177)
Bank overdraft and accrued balance for third parties	-	(28,511)	-	(28,511)
PFI Liabilities	-	-	(124,281)	(124,281)
Financial Guarantees	-	(61)	-	(61)
Current Creditors	-	(65,934)	-	(65,934)
Long Term Creditors	-	(24)	-	(24)
Total	**-**	**(533,560)**	**(124,281)**	**(657,841)**

Financial assets				
Short Term Deposits	-	242,137	-	242,137
Money Market Funds	23,800	-	-	23,800
Other Cash and Cash Equivalents	-	535	-	535
Current Debtors	-	27,442	-	27,442
Long Term Debtors	-	3,229	-	3,229
Total	**23,800**	**273,343**	-	**297,143**

21. Assets Held for Sale

	2016/17	2017/18
	£000	£000
Balance outstanding at start of year	**523**	**3,133**
Assets newly classified as held for sale	2,593	3,287
Additions	42	-
Revaluation losses recognised in Provision of Services	(25)	(2,070)
Assets declassified as held for sale	-	(116)
Assets sold	-	(225)
Balance outstanding at year end	**3,133**	**4,009**

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. During 2017/18, one held for sale property was sold, eight properties were newly classified as held for sale and one was reclassified as an investment property.

22. Current & Long Term Debtors and Payments in Advance

	31 March 2017	31 March 2018
	£000	£000
Current Debtors		
Central Government Bodies	5,770	4,269
Other Local Authorities	16,273	17,319
NHS Bodies	1,495	636
Other Entities and Individuals	19,959	18,960
Total	**43,497**	**41,184**
Long Term Debtors		
Higher Education Institution	992	946
South East Local Enterprise Partnership (Selep)	2,100	2,100
Other Entities and Individuals	136	998
Total	**3,228**	**4,044**

Allowance for debts impairment

The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. A decrease in the provision for bad debt adjustment of £0.150m was made in 2017/18, bringing the total allowance for impairment from £1.411m to £1.261m as at 31 March 2018. These amounts are netted off the figures shown for other entities and individuals above. Management specifically review all debts, and evaluate the adequacy of the allowance for impairment of receivables. However, most categories of the Council's debtors are not subject to substantial fluctuation and past experience is used within material limits to judge the percentages of each type of debt that will not eventually be recovered.

In addition, there are allowances for impairment in respect of Council Tax & Business Rates debtors which are assessed by the District Councils in their role as Council Tax collection authorities. At 31 March 2018 the Council's share of these allowances amounts to £8.919m (£7.657m at 31 March 2017) out of its share of Council Tax & Business Rates debts totalling £19.873m (£17.884m at 31 March 2017).

Payments In Advance

	31 March 2017 £000	31 March 2018 £000
Other Local Authorities	8	2
Other Entities & Individuals	6,313	5,509
Total	**6,321**	**5,511**

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

	31 March 2017 £000	31 March 2018 £000	Movement £000
Cash in hand	127	124	(3)
Short-term deposits	24,208	45,161	20,953
Total Cash and Cash Equivalents	**24,335**	**45,285**	**20,950**
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(807)	(786)	21
Bank overdraft	(5,122)	(7,538)	(2,416)
Accrued balance at bank and for third parties	(22,582)	(22,897)	(315)
Total bank overdraft and accrued balance for third parties	**(28,511)**	**(31,221)**	**(2,710)**
Net cash and cash equivalent balances / (overdrawn)	**(4,176)**	**14,064**	**18,240**

Note 32 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 the East Sussex Fire Authority and some trust funds alongside its own balances, the Council allows its own balances to become overdrawn if there is cash held in its own bank accounts on behalf of the other authorities, which results in a notional overdrawn balance because cheques and BACS payments are recorded when they are drawn, rather than when they are presented at the bank.

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

	31 March 2017 £000	31 March 2018 £000
East Sussex Fire Authority	(22,450)	(22,795)
Orbis	-	32
Trust Funds	(132)	(134)
Accrued balance at bank and for third parties	**(22,582)**	**(22,897)**

The pooled bank balances at 31 March 2018 include £8.9m (£7.9m at 31 March 2017) relating to bank accounts operated by schools under local management arrangements.

The Council operates partnership working arrangements with neighbouring local authorities - Surrey County Council and Brighton and Hove City Council under the umbrella of Orbis. Orbis aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers.

24. Creditors and Income in Advance

Creditors

	31 March 2017 £000	31 March 2018 £000
Central Government Bodies	6,820	6,570
Other Local Authorities	9,095	8,498
NHS Bodies	4,106	4,064
Other Entities and Individuals	63,924	63,953
Total	**83,945**	**83,085**

Income in Advance

	31 March 2017 £000	31 March 2018 £000
Other Local Authorities	3,408	3,442
NHS Bodies	3,780	2,719
Other Entities and Individuals	9,101	9,871
Total	**16,289**	**16,032**

25. Provisions

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

Long Term Provisions	31 March 2017 £000	Additional provisions £000	Amounts used £000	31 March 2018 £000
Insurance claims	3,694	-	(313)	3,381
Section 117 liabilities	670	-	(670)	-
Closed Landfill Sites	9,193	-	(122)	9,071
Total	**13,557**	**-**	**(1,105)**	**12,452**

Short Term Provisions	31 March 2017 £000	Additional provisions £000	Amounts used £000	31 March 2018 £000
Services Redundancies	42	-	(42)	-
Municipal Mutual Insurance (MMI)	171	15	-	186
Highways Contract	263	-	-	263
NNDR Appeals	817	323	-	1,140
Closed Landfill Sites	490	-	-	490
Total	**1,783**	**338**	**(42)**	**2,079**
Total Provisions	**15,340**	**338**	**(1,147)**	**14,531**

The provision for insurance claims (Pre 1997 & Post 1997 liabilities) represents an estimate of the amounts which the Council will have to pay for claims arising before 31 March 2014, but where the exact amount and the date of payment are uncertain.

Between 1993 and 2000, the Council charged clients for the provision of services under Section 117 of the Mental Health Act 1993. A court case subsequently established that it was illegal to make such charges. The Council is obliged to repay these charges, together with interest therefore a provision has been set up to allow for the future repayment of all outstanding cases.

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.

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

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.

Highways Contract – relates to outstanding claims from a service provider.

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 2018.

26. Usable Reserves

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

- County Fund & School Balances - The County Fund and School balances shows the resources available to meet future running costs. See Note 10 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 2017 £000	31 March 2018 £000
Usable Capital Receipts Reserve	50	1,233
Capital Grants & Contributions Unapplied	14,124	14,402
Earmarked Reserves	91,161	86,653
Earmarked Reserves – Revenue Grants & Contributions	20,002	25,533
County Fund Balances	9,999	9,999
School Balances	10,456	10,734
Total Usable Reserves	**145,792**	**148,554**

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.

	2016/17 £000	2017/18 £000
Balance at 1 April	**2,432**	**50**
Amounts receivable during the year	638	3,183
Amounts applied to finance new capital investment	(3,020)	(2,000)
Net Transfer to / (from) the Capital Receipts Reserve	(2,382)	1,183
Balance at 31 March	**50**	**1,233**

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.

	2016/17 £000	2017/18 £000
Balance at 1 April	**17,989**	**14,124**
Amounts receivable during the year	52,306	56,567
Amounts applied to finance new capital investment	(56,171)	(56,289)
Net Transfer to / (from) the Capital Unapplied Account	(3,865)	278
Balance at 31 March	**14,124**	**14,402**

27. Unusable Reserves

	31 March 2017 £000	31 March 2018 £000
Revaluation Reserve	220,838	238,161
Capital Adjustment Account	385,463	391,697
Financial Instruments Adjustment Account	(23)	(23)
Collection Fund Adjustment Account	5,102	4,327
Accumulated Absences Account	(5,685)	(5,364)
Pensions Reserve	(415,151)	(409,788)
Total Unusable Reserves	**190,544**	**219,010**

Revaluation Reserve

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

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

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

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	2016/17	2017/18	
	£000	£000	£000
Balance at 1 April	**187,437**		**220,838**
Upward revaluation of assets	48,841	43,808	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(4,970)	(9,413)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	43,871		34,395
Difference between fair value depreciation and historical cost depreciation	(6,992)	(8,317)	
Accumulated gains on assets sold or scrapped	(3,478)	(8,755)	
Amount written off to the Capital Adjustment Account	(10,470)		(17,072)
Balance at 31 March	**220,838**		**238,161**

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

	2016/17 £000	2017/18 £000	 £000
Balance at 1 April	**363,432**		**385,463**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(41,139)	(43,951)	
Revaluation losses on non-current assets	(14,218)	(8,291)	
Revaluation losses on assets held for sale	(25)	(2,069)	
Revaluation loss reversals on non-current assets	11,830	6,683	
Amortisation of intangible assets	(2,233)	(2,595)	
Revenue expenditure funded from capital under statute	(17,641)	(18,522)	
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	(13,376)	(22,788)	
	(76,802)		**(91,533)**
Adjusting amounts written out of the Revaluation Reserve	10,470		17,072
Net written out amount of the cost of non-current assets consumed in the year	**(66,332)**		**(74,461)**
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	3,020		2,000
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	58,214		56,289
Statutory provision for the financing of capital investment charged against the General Fund balance	11,041		11,757
Capital expenditure charged against County Fund balances	16,673		10,514
	88,948		**80,560**
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	(585)		135
Balance at 31 March	**385,463**		**391,697**

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 County Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the County 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 2018 will be charged to the County Fund over a specific period.

	2016/17 £000	2017/18 £000
Balance at 1 April	**(23)**	**(23)**
Proportion of premiums incurred in previous financial years to be charged against the County Fund Balance in accordance with statutory requirements	-	-
Balance at 31 March	**(23)**	**(23)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £000	2017/18 £000
Balance at 1 April	**(416,950)**	**(415,151)**
Remeasurement of the net defined liability	16,275	34,691
Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement	(48,232)	(63,365)
Employer's pension contributions charged to General Fund Balance	33,756	34,037
Balance at 31 March	**(415,151)**	**(409,788)**

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.

	2016/17 £000	2017/18 £000
Balance at 1 April	**4,876**	**5,102**
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	116	(776)
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	110	1
Net movement in the Collection Fund Adjustment Account	226	(775)
Balance at 31 March	**5,102**	**4,327**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the County 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 County Fund Balance is neutralised by transfers to or from the Account.

	2016/17 £000	2017/18 £000
Balance at 1 April	**(6,032)**	**(5,685)**
Settlement or cancellation of accrual made at the end of the preceding year	6,032	5,685
Amounts accrued at the end of the current year	(5,685)	(5,364)
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	347	321
Balance at 31 March	**(5,685)**	**(5,364)**

28. Cash Flow Statement –Operating Activities

The cash flows for operating activities include the following items:

	2016/17 £000	2017/18 £000
Net Deficit on the Provision of Services	**22,488**	**37,858**
Adjustment for non-cash movements		
Depreciation	(41,139)	(43,951)
Impairment and downward revaluations	(14,243)	(10,361)
Reversal of previous year's revaluation losses	11,830	6,683
Amortisation of Intangible Assets	(2,233)	(2,595)
Financial Guarantee Adjustments	(1)	(7)
(Increase) / Decrease in Interest Creditors	31	(3,884)
(Increase) / Decrease in Creditors	(2,411)	(269)
Increase / (Decrease) in Interest Debtors	(408)	119
Increase / (Decrease) in Debtors	(551)	(1,060)
Increase / (Decrease) in Inventories	10	(24)
Movement in Pension Liability	(14,476)	(29,327)
Contributions (to) / from Provisions	1,784	809
Carrying amount of non-current assets sold or derecognised	(13,376)	(22,788)
Upward / (Downward) revaluation in Investment Property Values	(585)	135
Adjustment for items that are investing or financing activities		
Capital grants and contributions credited to provision of services	54,349	56,566
Net adjustments from the sale of short term investments	(14,000)	(28,000)
Proceeds from the sale of PPE, Investment Property and Intangible assets	638	717
Net Cash inflow from Operating Activities	**(12,293)**	**(39,379)**

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

	2016/17 £000	2017/18 £000
Interest receivable	(1,884)	(1,466)
Opening debtor	(545)	(138)
Closing debtor	138	257
Cash flow interest received	**(2,291)**	**(1,347)**

	2016/17 £000	2017/18 £000
Interest payable	20,143	19,183
Opening creditor	(1,305)	(1,274)
Closing creditor	1,274	5,158
Cash flow interest paid	**20,112**	**23,067**

29. Cash Flow Statement – Investing Activities

	2016/17 £000	2017/18 £000
Additions of Property, Plant & Equipment (PPE)	61,080	61,857
Additions of Intangible Assets & Assets Held for Sale	885	486
Opening Capital Creditors	8,387	6,550
Closing Capital Creditors	(6,550)	(5,167)
Purchase of Long Term Investments	-	7,500
Long Term loans granted	701	876
Proceeds from the sale of PPE	(638)	(717)
Other capital cash receipts	(300)	(60)
Capital Grants Received	(52,930)	(58,430)
Net cash outflow from investing activities	**10,635**	**12,895**

30. Cash Flow Statement – Financing Activities

	2016/17 £000	2017/18 £000
Cash receipts of short and long term borrowing	(5,000)	-
Appropriation to the Collection Fund Adjustment Account	182	(451)
Repayments of short and long term borrowing	4,612	4,614
Payments for the reduction of long term PFI Liabilities	3,745	4,081
Net cash outflow from financing activities	**3,539**	**8,244**

31. Trading Operations

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 1970 Act (for example, School Library Service, Music Tuition, Parking, Legal, Street Lighting and some Financial Services). Trading operations are incorporated into the Comprehensive Income and Expenditure Statement under Financing and Investment Income and Expenditure (see Note 12). 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.

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

In 2017/18 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006 with the following partners: Eastbourne, Hailsham & Seaford CCG; Hastings & Rother CCG; and High Weald Lewes & Havens CCG.

- The Integrated Community Equipment Service started in September 2004 comprises the Council as host agency, Eastbourne, Hailsham and Seaford CCG; Hastings and Rother CCG; and High Weald Lewes Havens CCG.
- The Better Care Fund (BCF) started in April 2015.

For 2017/18 the Council had two Section 75 agreements:

- One comprises the Council, as host agency; Eastbourne, Hailsham and Seaford CCG; and Hastings and Rother CCG.
- The other comprises the Council, as host agency; and High Weald Lewes Havens CCG.

BCF planning was required for the whole of East Sussex and was signed off by the Health and Wellbeing Board on 20th October 2017. The substance of this Better Care Fund arrangement is not one of a pooled budget. Individual members have continued to contract with individual providers without reference to other members and using their own sources of funding. In substance these are neither joint operations nor lead commissioner transactions and not a vehicle for joint commissioning. 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:

	2016/17			2017/18		
	Expenditure	Income	ESCC Contribution	Expenditure	Income	ESCC Contribution
	£000	£000	£000	£000	£000	£000
Arrangement						
Integrated Community Equipment	4,980	(4,980)	(2,490)	5,354	(5,354)	(2,367)
Better Care Fund	43,499	(43,499)	(6,698)	55,983	(55,998)	(18,537)
Total	**48,479**	**(48,479)**	**(9,188)**	**61,337**	**(61,352)**	**(20,904)**

Note
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 2017/18 was £308,287.

Orbis Joint Operating Budget
Orbis is a partnership between Surrey and East Sussex County Councils that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. This decision is built on the successful collaboration between Surrey and East Sussex County Councils. The partnership working arrangements are with the Surrey County Council and Brighton and Hove City Council under the umbrella of Orbi.

The Orbis Partnership incorporates the following services: Human Resources and Organisational Development, Property, IT, Procurement, Finance (including Internal Audit) and Business Operations (Shared Services).

	2016/17	2017/18
	£000	£000
Funding provided to the pooled budget		
- Surrey County Council	(35,004)	(33,586)
- East Sussex County Council	(15,038)	(14,580)
	(50,042)	**(48,166)**
Expenditure met from the pooled budget	50,042	48,166
Net surplus on the pooled budget	-	-

33. Members' Allowances

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

	2016/17	2017/18
	£000	£000
Salaries - basic allowances	547	608
National Insurance & Pension	119	63
Special responsibility allowances	205	219
Expenses	35	33
Total	**906**	**923**

The table below shows the actual amounts paid to individual members in the 2017/18 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	John	12,198	-	-	-
Cllr.	Beaver**	Matthew	11,044	-	297	-
Cllr.	Belsey	Colin	12,198	6,277	1,259	45
Cllr.	Bennett	Nicholas	12,198	15,068	2,046	44
Cllr.	Bentley	Bill	12,198	15,068	1,888	57
Cllr.	Blanch*	Mike	1,155	641	15	-
Cllr.	Boorman**	Phillip	11,044	-	-	-
Cllr.	Bowdler**	Robert	11,044	-	674	
Cllr.	Buchanan*	Ian	1,155	-	-	-
Cllr.	Butler*	Carla	1,155	-	-	-
Cllr.	Carstairs*	Frank	1,155	-	-	-
Cllr.	Charlton*	Peter	1,155	-	-	-
Cllr.	Charman	Tania	12,198	-	-	-
Cllr.	Clark	Charles	12,198	-	-	-
Cllr.	Clarke**	Martin	11,044	-	309	-
Cllr.	Daniel	Godfrey	12,198	894	1,126	58
Cllr.	Daniel**	Philip	11,044	-	-	-
Cllr.	Davies	Angharad	12,198	6,277	2,256	43
Cllr.	Dowling	Christopher	12,198	2,147	429	-
Cllr.	Dowling	Claire	12,198	5,383	261	-
Cllr.	Earl	Stuart	12,198	-	495	51
Cllr.	Elford**	Simon	11,044	-	-	-
Cllr.	Elkin	David	11,303	17,578	2,336	278
Cllr.	Enever**	Nigel	11,044	-	171	2
Cllr.	Ensor	Michael	12,198	12,554	-	-
Cllr.	Field	Kathryn	12,198	3,692	905	-
Cllr.	Forward*	Kim	1,155	-	-	-
Cllr.	Fox**	Gerard	11,044	-	-	-
Cllr.	Galley	Roy	12,198	5,383	1,252	25
Cllr.	Glazier	Keith	12,198	33,487	3,830	826
Cllr.	Grover**	Darren	11,044	-	-	-
Cllr.	Howson*	Philip	1,155	-	63	-
Cllr.	Keeley*	Laurence	1,155	-	137	38
Cllr.	Lambert	Carolyn	12,198	-	-	-
Cllr.	Liddiard**	Thomas	11,044	-	349	
Cllr.	Loe**	Laurence	11,044	-	278	-
Cllr.	Maynard	Carl	12,198	15,068	1,779	73
Cllr.	O'Keeffe	Ruth	12,198	-	-	-
Cllr.	Osborne**	Sarah	11,044	-	112	-
Cllr.	Phillips*	Michael	1,155	-	-	-
Cllr.	Pragnell	Peter	12,198	5,026	-	-

Member			Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr.	Pursglove*	Mike	1,155	-	361	11
Cllr.	Rodohan	Patrick	12,198	-	-	-
Cllr.	Rogers*	Judith	1,155	-	-	-
Cllr.	Scott	Philip	12,198	-	29	-
Cllr.	Sheppard	Jim	12,198	-	-	-
Cllr.	Shing	Daniel	12,198	-	89	-
Cllr.	Shing	Stephen	12,198	-	865	-
Cllr.	Shuttleworth	Alan	12,198	-	470	-
Cllr.	Simmons	Rupert	12,198	15,068	1,068	4
Cllr.	Smith**	Andy	11,044	-	187	-
Cllr.	St Pierre*	Rosalyn	1,155	-	-	-
Cllr.	Standley	Bob	12,198	12,921	1,314	23
Cllr.	Stogdon	Richard	12,198	6,277	1,672	278
Cllr.	Swansborough**	Colin	11,044	5,383	376	-
Cllr.	Taylor	Barry	12,198	-	-	-
Cllr.	Tidy	Sylvia	12,198	15,068	972	40
Cllr.	Tutt	David	12,198	12,554	576	-
Cllr.	Ungar	John	12,198	-	315	-
Cllr.	Wallis	Steve	12,198	-	8	-
Cllr.	Webb	Trevor	12,198	5,026	-	80
Cllr.	Whetstone	Francis	12,198	-	-	-
Cllr.	Wincott*	Michael	1,155	-	-	-
	Total		**607,864**	**216,840**	**30,569**	**1,976**

Note – The County Council election was held on Thursday 4 May 2017 -

**Members that have not been re-elected.*
***Elected new Members post the County Council election.*

34. Officers' Remuneration

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

Senior Employees Remuneration 2017/18

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contributions	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw		190,693	-	-	-	34,039	224,732
Chief Operating Officer		142,217	-	-	-	25,386	167,603
Director of Adult Social Care & Health		142,217	10,561	5,187	-	27,271	185,236
Director of Children's Services		142,217	7,040	351	-	26,642	176,250
Director of Communities, Economy & Transport.	1	139,301	-	4,070	-	25,386	168,757
Director of Public Health	2	106,201	5,031	-	-	15,991	127,223
Assistant Chief Executive		102,199	-	-	-	18,242	120,441
Chief Finance Officer	3	63,799	-	-	-	11,388	75,187

Notes:

1. The Director of Communities, Economy & Transport gross salary, fees and allowances figure before Childcare vouchers (CCV) for the 2017/18 was £142,217. The total Director of Communities, Economy & Transport remuneration for the period was £171,673;
2. NHS Pension Scheme not LGPS;
3. The Council appointed a permanent Chief Finance Officer on 1st July 2017, i.e., he has been in post for 9 months. This role had initially been fulfilled by the Chief Operating Officer on a temporary basis for 3 months, between 1st April 2017 and 30th May 2017.

Senior Employees Remuneration 2016/17

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contributions	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw		188,805	-	-	-	38,327	227,132
Chief Operating Officer		140,809	-	-	-	28,584	169,393
Director of Adult Social Care & Health		140,809	10,456	5,023	-	30,707	186,995
Director of Children's Services		140,809	-	626	-	28,584	170,019
Director of Communities, Economy & Transport.	1	137,893	-	4,076	-	28,584	170,553
Acting Director of Public Health	2	105,149	-	-	-	15,036	120,185
Assistant Chief Executive		98,241	-	-	-	19,943	118,184
Chief Finance Officer	3	52,882	-	60	99,352	10,852	163,146
Interim Chief Finance Officer	4	56,137	-	-	-	-	56,137

Notes:

1. The Director of Communities, Economy & Transport gross salary, fees and allowances figure before Childcare vouchers (CCV) for the 2016/17 was £140,809. The total Director of Communities, Economy & Transport remuneration for the period was £173,469.
2. NHS Pension Scheme not LGPS.
3. Pension Contributions based on salary before salary sacrifice of £53,459. Ceased to be an employee of the Council on 30 September 2016.
4. Interim Chief Finance Officer from September 2016. Invoices the Council for services via CIPFA-Penna.

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

Remuneration band	**2016/17 Number of employees**			**2017/18 Number of employees**		
	Non Schools	Schools	**Total**	Non Schools	Schools	**Total**
£50,000-£54,999	69	68	137	80	74	154
£55,000-£59,999	22	34	56	28	39	67
£60,000-£64,999	42	33	75	15	27	42
£65,000-£69,999	8	15	23	24	16	40
£70,000-£74,999	5	11	16	11	6	17
£75,000-£79,999	4	3	7	2	7	9
£80,000-£84,999	3	1	4	5	2	7
£85,000-£89,999	2	4	6	-	3	3
£90,000-£94,999	2	1	3	1	2	3
£95,000-£99,999	2	1	3	2	1	3
£100,000-£104,999	1	-	1	2	-	2
£105,000-£109,999	2	-	2	1	-	1
£110,000-£114,999	-	-	-	3	-	3
£115,000-£119,999	-	-	-	-	-	-
£120,000-£124,999	-	-	-	-	-	-
£125,000-£129,999	-	-	-	-	-	-
£130,000-£134,999	-	-	-	-	-	-
£135,000-£139,999	-	-	-	-	-	-
£140,000-£144,999	3	-	3	2	-	2
£145,000-£149,999	-	-	-	1	-	1
£150,000-£154,999	1	-	1	-	-	-
£155,000-£159,999	1	-	1	2	-	2
£160,000-£164,999	-	-	-	-	-	-
£165,000-£169,999	-	-	-	-	-	-
£170,000-£174,999	-	-	-	-	-	-
£175,000-£179,999	-	-	-	-	-	-
£180,000-£184,999	-	-	-	-	-	-
£185,000-£189,999	1	-	1	-	-	-
£190,000-£194,999	-	-	-	1	-	1

35. Termination Benefits & Exit Packages

The Council normally offers both voluntary early retirement and voluntary redundancy as part of organisational restructures undertaken in accordance with the Managing Change Suite of Policies. In addition, there is a Voluntary Severance Scheme, which allows Council employees to apply for voluntary severance. Its purpose is to help ensure the efficient running of the Council, to help the Council reach its cost reduction targets and to minimise the need for compulsory redundancies in the future.

The Council terminated the contracts of 213 employees during 2017/18, incurring costs of £2.06m (288 terminations at a cost of £2.79m in 2016/17). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2017/18 and 2016/17 are shown in the tables below.

Exit Packages 2017/18

	Compulsory redundancies		Other departures agreed		Total number of exit packages	
Exit package cost Band	**Number of employees**	**£000**	**Number of employees**	**£000**	**Number of employees**	**£000**
less than £20,000	83	599	102	608	185	1,207
£20,000 to £39,999	12	321	12	311	24	632
£40,000 to £59,999	2	95	1	59	3	154
£60,000 to £79,999	-	-	1	72	1	72
£80,000 to £99,999	-	-	-	-	-	-
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
Total	**97**	**1,015**	**116**	**1,050**	**213**	**2,065**

The total cost of £2.10m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2017/18. There were no provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2017/18.

Exit Packages 2016/17

	Compulsory redundancies		Other departures agreed		Total number of exit packages	
Exit package cost Band	**Number of employees**	**£000**	**Number of employees**	**£000**	**Number of employees**	**£000**
less than £20,000	108	679	140	781	248	1,460
£20,000 to £39,999	12	339	18	457	30	796
£40,000 to £59,999	3	162	5	223	8	385
£60,000 to £79,999	1	63	-	-	1	63
£80,000 to £99,999	1	95	-	-	1	95
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
Total	**125**	**1,338**	**163**	**1,461**	**288**	**2,799**

36. External Audit Costs

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

	2016/17 £000	2017/18 £000
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	84	84
Fees payable for Tax Advisory	5	-
Fees payable for the certification of grant claims and returns	6	6
Total External auditor remuneration	95	90
*Public Sector Audit Appointments (PSAA) - refund	-	(12)
Total	**95**	**78**

*PSAA refund as a result of national refund.

37. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2016/17 £000	2016/17 £000	2017/18 £000	2017/18 £000
Credited to Taxation and Non Specific Grant Income				
Council Tax		247,330		260,674
Business Rates		71,181		71,384
Revenue Support Grant:				
General	45,107		26,727	
New Homes Bonus	2,878		2,246	
Transition	2,704		2,696	
		50,689		31,669
Capital grants and contributions recognised		54,348		56,567
Total		**423,548**		**420,294**
Grants Credited to Services				
Dedicated Schools		226,260		226,630
Young Peoples Learning Agency & Sixth Forms		4,226		4,141
Private Finance Initiative		4,755		4,755
Pupil Premium		10,588		9,504
Public Health		28,697		27,990
Education Services		4,225		1,139
Universal Infant Free School Meals		3,955		4,141
Better Care Fund		-		13,129
Disabled Facilities		5,582		6,109
Other		11,228		15,244
Total		**299,516**		**312,782**

Notes – Details of the Dedicated Schools Grant figure are included in Note 38 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 2017 £000	31 March 2018 £000
Current Liabilities – Receipts in Advance		
Revenue Grants & Contributions	-	-

	31 March 2017 £000	31 March 2018 £000
Long Term Liabilities – Receipts in Advance		
Capital Grants & Contributions	5,198	5,461

38. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2017/18 before Academy recoupment	71,984	275,328	347,312
Academy figure recouped for 2017/18	-	(120,158)	(120,158)
Total DSG after Academy recoupment for 2017/18	**71,984**	**155,170**	**227,154**
Plus: Brought Forward from 2016/17	1,338	898	2,236
Less: Carry forward to 2018/19 agreed in advance	(766)	-	(766)
Agreed initial budgeted distribution in 2017/18	**72,556**	**156,068**	**228,624**
In year adjustments	62	-	62
Final budgeted distribution for 2017/18	**72,618**	**156,068**	**228,686**
Less: Actual central expenditure	(69,044)	-	(69,044)
Less: Actual ISB deployed to schools	-	(156,068)	(156,068)
Plus: Local authority contribution for 2017/18	-	-	-
Carry forward to 2018/19	**3,574**	**-**	**3,574**

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2017/18 was £160.0m. Schools carried forward (reserve) a net total of £10.7m (6.7%) at the end of the financial year at 31 March 2018, which was an increase of £0.28m compared to 31 March 2017. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
All schools with surpluses					
Number of schools	**No.**	**116**	**9**	**2**	**127**
Total surplus	£000	8,265	2,555	400	11,220
All schools with deficits					
Number of schools	**No.**	**3**	**2**	**-**	**5**
Total deficit	£000	(102)	(374)	-	(476)
Carry forward	**£000**	**8,163**	**2,181**	**400**	**10,744**
Less Capital Loan to Schools	£000	(18)	-	-	(18)
Net carry forward	**£000**	**8,145**	**2,181**	**400**	**10,726**

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

39. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions, and further details are shown in Note 37. Grant receipts in advance at 31 March 2018 are shown in Note 37.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. None of the Chief Officers and Members had any interests in any related party transactions during the year. The Register of Members' Interests is held at County Hall, Lewes, and is open to public inspection. The total of members' allowances paid in 2017/18 is shown in Note 33.

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 2017/18, goods and services to the value of £26,116 were commissioned from this entity.
- Chairman and Member of Ashdown Forest Trust. In 2017/18, rents of golf course to the value of £70,000 were paid to this entity.

Other Public Bodies

During 2017/18, the Pension Fund had an average balance of £3.5m deposited with the Council, and received £18,000 interest for these deposits. The Council charged the Fund £1.3m for expenses incurred in administering the Fund.

The Council is involved in several partnerships under Section 75 of the National Health Services Act 2006. Details of these arrangements are shown in Note 32.

Entities controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 48), for the balances held by the Council at 31 March 2018.

The High Weald Unit of the Economy, Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd. There were no long term debts to the company at 31 March 2018.

40. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

The Council accounts fully for depreciation of assets in line with accounting standards in the Comprehensive Income & Expenditure Statement, but it is legally obliged to provide for the repayment of a proportion of its Capital Financing Requirement (the Minimum Revenue Provision) in its charge to taxpayers.

The Capital Financing Requirement represents the Council's net need to borrow to finance its capital investment, made up of all loan investment in previous years, less amounts set aside each year for the redemption of debt.

	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement	**344,135**	**335,194**
Property, Plant and Equipment	61,081	61,857
Intangible assets	839	451
Assets Held for Sale	42	-
Heritage assets	3	35
Revenue Expenditure Funded from Capital under Statute	17,641	18,522
Total capital investment	**79,606**	**80,865**
Capital receipts	(3,020)	(2,000)
Government grants and contributions	(58,213)	(56,289)
Revenue financing	(16,673)	(10,514)
Total financing other than from loans	**(77,906)**	**(68,803)**
Long Term capital debtors	400	817
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(11,041)	(11,757)
Closing Capital Financing Requirement	**335,194**	**336,316**
Explanation of movements in year		
Increase / (decrease) in underlying need to borrow, that is not supported by government financial assistance	(8,941)	1,122

41. Leases

Authority as Lessee

Finance Leases - As at 31 March 2018, the Council has no assets classed as finance leases.

Operating Leases - The Council leases land and buildings and vehicles, plant, furniture and equipment under operating leases. The lease period of land and buildings is typically 10 to 15 years, vehicles 5 to 7 years and equipment 3 to 5 years.

The future minimum lease payments payable in future years are:

	31 March 2017 £000	31 March 2018 £000
Not later than one year	3,048	3,264
Later than one year and not later than five years	10,459	10,949
Later than five years	12,946	12,024
Total	**26,453**	**26,237**

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

	2016/17	2017/18
	£000	£000
Vehicles	96	9
Schools	721	742
Land and Buildings	2,604	2,845
Total	**3,421**	**3,596**

Other payments for the renting and hiring of facilities in 2017/18 was £0.103m (£0.060m 2016/17).

Authority as Lessor

Finance Leases - As at 31 March 2018, 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 2017 *Restated*	31 March 2018
	£000	£000
Not later than one year	1,555	1,497
Later than one year and not later than five years	2,947	2,439
Later than five years	8,153	6,618
Total	**12,655**	**10,554**

The total income received from leasing, renting and hiring of facilities in 2017/18 was £1.770m (£1.803m 2016/17).

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2017 £000	31 March 2018 £000
Long Term PFI Liabilities	80,108	76,027
Financial Guarantees	62	69
Long Term Creditors	24	31
Total	**80,194**	**76,127**

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

Peacehaven Schools PFI	Telscombe Cliffs	Meridian	Peacehaven Secondary	Peacehaven Heights	Total
	£000	£000	£000	£000	£000
1 April 2017	**7,264**	**229**	**16,813**	**4,498**	**28,804**
Additions	18	-	8	5	31
Revaluations	619	25	1,554	426	2,624
Depreciation	(257)	(8)	(595)	(254)	(1,114)
31 March 2018	**7,644**	**246**	**17,780**	**4,675**	**30,345**

Waste PFI	Hollingdean WTS & MRF	Crowborough HWRS	Maresfield WTS & HWRS	Whitesmith Composting Facility	Newhaven Energy Recovery Facility	Pebsham HWRS	Total
	£000	£000	£000	£000	£000	£000	£000
1 April 2017	**7,140**	**-**	**2,504**	**15,127**	**32,263**	**21**	**57,055**
Revaluations	1,065	-	5,732	1,764	(732)	3	7,832
Depreciation	(308)	-	(96)	(470)	(1,219)	(1)	(2,094)
31 March 2018	**7,897**	**-**	**8,140**	**16,421**	**30,312**	**23**	**62,793**

Note - 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

In conjunction with Brighton and Hove City Council, the Council jointly entered into a 25 year agreement, on the 31st March 2003, for the provision of an integrated waste management service with Southdown Waste Services Ltd. In 2009/10 the agreement extended by a further 5 years to 31 March 2033. Based on a projected 2.5% annual inflation rate the details of the payments due to be made are detailed below.

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Total
	£000	£000	£000	£000	£000
Within 1 year: 2018/19	3,166	6,994	17,038	3,065	30,263
Within 2 to 5 years: 2019/20 to 2022/23	10,275	24,092	73,472	10,693	118,532
Within 6 to 10 years: 2023/24 to 2027/28	23,620	36,353	103,747	24,658	188,378
Within 11 to 15 years: 2028/29 to 2032/33	31,864	37,319	118,607	32,306	220,096
Total	**68,925**	**104,758**	**312,864**	**70,722**	**557,269**

Peacehaven Schools PFI

The Council has a contract with Peacehaven Schools Ltd (PSL) under the Private Finance initiative to provide a new secondary school and replace or refurbish four primary schools in Peacehaven and Telscombe Cliffs. The first school became operational in January 2000. Based on actual inflation to 31 March 2018, and assuming a 3.0% inflation rate for the remaining life of the contract, the payments to be made are set out below:

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Total
	£000	£000	£000	£000	£000
Within 1 year: 2018/19	916	1,102	1,648	755	4,421
Within 2 to 5 years: 2019/20 to 2022/23	4,662	3,410	7,102	3,467	18,641
Within 6 to 10 years: 2023/24 to 2026/27	5,608	1,285	6,776	3,580	17,248
Total	**11,185**	**5,796**	**15,526**	**7,803**	**40,311**

All operational PFI contracts are now accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual. The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The deferred liability as at 31 March 2018 is £80.1m (£68.9m for Waste PFI, and £11.2m for Peacehaven Schools PFI), and as at 31 March 2017 was £83.9m (£71.9m for Waste PFI, and £12.0m 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
Balance outstanding at 1 April 2017	**71,906**	**12,018**	**83,924**	**3,816**	**80,108**
Lease principal repayment	(2,981)	(832)	(3,813)	268	(4,081)
Balance outstanding at 31 March 2018	**68,925**	**11,186**	**80,111**	**4,084**	**76,027**

43. 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 2017/18, the Council incurred a total of £12.9m payable to Teachers Pensions in respect of teacher's pension costs, which represents 16.48% 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 £2.7m. These figures compare to an amount of £13.8m payable in 2016/17 (16.48% of pensionable pay) and £2.8m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, Teachers Pensions 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 2018, the Council owed £1.6m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£1.75m at March 2017). The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

NHS Pensions 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 2017/18, the Council incurred a total of £0.132m payable to the NHS Pension Scheme in respect of former NHS staff retirement benefits, and there was £0.02m contributions remaining payable at the year end. These figures compare to an amount of £0.139m payable in 2016/17.

44. Defined Benefits Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these will not actually be payable until employees retire, the Council has a commitment to make the payments, and this needs to be disclosed at the time that employees earn their future entitlement.

The Accounting Policies note explains that the Council participates in two schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. The Teachers' Pension Scheme is administered nationally, and the Comprehensive Income and Expenditure Statement contain actual contributions made to the scheme. The Local Government Scheme is administered through the East Sussex Pension Fund, and in addition, the Council has liabilities for discretionary payments for added years, and other benefits, both for local government employees and for teachers. These are charged as an expense to the accounts of the Council, rather than those of the Pension Fund.

Transactions Relating to Post-employment Benefits - We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the contributions made in the year, so the real cost of retirement benefits is reversed out through the General Fund via the Movement in Reserves Statement and the contributions made in the year are included. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost Comprising:		
• current service cost	32,906	51,318
• past service costs	745	1,024
• (gain) / loss from settlements		
Financing and Investment Income and Expenditure		
Net interest expense	14,581	11,023
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**48,232**	**63,365**
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)	(175,698)	1,999
• Actuarial gains and losses arising on changes in demographic assumptions	(21,166)	-
• Actuarial gains and losses arising on changes in financial assumptions	231,824	(29,957)
• Other (if applicable)	(51,235)	(6,733)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**31,957**	**28,674**
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	1,799	5,363
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to the scheme	**33,756**	**34,037**

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:

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,338,145)	(1,580,330)	(1,469,360)	(1,671,821)	(1,691,088)
Fair value of plan assets in the Local Government Pension Scheme	912,849	1,039,947	1,052,410	1,256,670	1,281,300
Deficit in the scheme: Local Government Pension Scheme	**(425,296)**	**(540,383)**	**(416,950)**	**(415,151)**	**(409,788)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,691.1m (£1,671.8m in 2016/17) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £409.8m (£415.1m in 2016/17).

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 2018 is £34.0m (£33.7m in 2016/17).

Based on the current benefit structure of the Local Government Pension Scheme (LGPS), and using the roll forward model, the actuarial estimate of the present value of funded liabilities as at 31 March 2018 is employee members £619.8m (£563.1m at 31 March 2017), deferred pensioners £356.4m (£358.7m) and pensioners £625.3m (£650.7m). There is also a liability of approximately £44.1m (£48.3m) in respect of LGPS unfunded pensions and £45.5m (£50.9m) in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

Assets and Liabilities in Relation to Post-employment Benefits

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

	2016/17 £000	2017/18 £000
Opening balance at 1 April:	**1,469,360**	**1,671,821**
Current Service Cost	32,906	51,318
Interest Cost	51,249	43,597
Contributions by scheme participants	8,582	8,661
Re-measurement (gains) and losses:		
• Actuarial gains / losses arising from changes in demographic assumptions	(21,166)	-
• Actuarial gains / losses arising from changes in financial assumptions	231,824	(29,957)
• Other	(51,235)	(6,733)
Past Service Cost	745	1,024
Losses / (gains) on curtailment	-	-
Liabilities assumed on entity combinations	-	-
Benefits paid	(45,301)	(43,618)
Unfunded Benefits paid	(5,143)	(5,025)
Closing balance at 31 March	**1,671,821**	**1,691,088**

Reconciliation of fair value of the scheme assets:

	2016/17 £000	2017/18 £000
Opening fair value of scheme asset at 1 April:	**1,052,410**	**1,256,670**
Interest Income	36,668	32,574
Re-measurement gain / (loss):		
• The return on plan assets, excluding the amount included in the net interest expense	175,698	(1,999)
• Other	5,143	5,025
The effect of changes in foreign exchange rates	-	-
Contributions from employer	28,613	29,012
Contributions from employees into the scheme	8,582	8,661
Benefits paid	(45,301)	(43,618)
Unfunded benefits paid	(5,143)	(5,025)
Closing fair value of scheme assets at 31 March	**1,256,670**	**1,281,300**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £11.02m (2016/17: £14.58m).

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2016/17 £000	%	Fair value of scheme assets 2017/18 £000	%
Cash and cash equivalents	**49,341**	**4**	**50,308**	**4**
Equity instruments:				
By industry type				
• Consumer	23,415	2	23,874	2
• Manufacturing	12,390	1	12,633	1
• Energy and utilities	2,112	-	2,153	-
• Financial institutions	38,008	3	38,753	3
• Health and care	21,521	2	21,942	2
• Information technology	17,908	1	18,259	1
• Other	6,765	1	6,898	1
Sub-total equity	**122,119**	**10**	**124,512**	**10**
Bonds:				
By sector				
• Government	34,821	3	35,504	3
• Other	2,241	-	2,285	-
Sub-total bonds	**37,062**	**3**	**37,789**	**3**
Private equity:				
All	71,913	6	73,322	6
Overseas				
Sub-total private equity	**71,913**	**6**	**73,322**	**6**
Other investment funds:				
• UK Property	120,501	10	122,863	10
• Overseas Property				
Sub-total other investment funds	**120,501**	**10**	**122,863**	**10**
Investment funds and unit trusts:				
• Equities	692,114	55	705,680	55
• Bonds	144,972	12	147,814	12
• Hedge Funds	1,262	-	1,286	-
• Commodities	1,861	-	1,897	-
• Infrastructure	13,891	-	14,163	-
• Other	1,369	-	1,396	-
Sub-total Investment funds and unit trusts	**855,469**	**67**	**872,236**	**67**
Derivatives:				
• **Foreign exchange**	**265**	**-**	**270**	**-**
Total assets	**1,256,670**	**100**	**1,281,300**	**100**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the calculations in the latest full valuation of the scheme as at 31 March 2016 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:

	2016/17	2017/18
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	22.1	22.1
Women	24.4	24.4
Longevity at 65 for future pensioners		
Men	23.8	23.8
Women	26.3	26.3
Rate of increase in salaries	2.8%	2.8%
Rate of inflation/increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.7%

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. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2018:	**Impact on the Defined Benefit Obligation in the Scheme**	
	Approximate increase to Employer	**Approximate monetary amount**
	%	**£000**
0.5% decrease in Real Discount Rate	9	158,007
0.5% increase in the Salary Increase Rate	1	19,056
0.5% increase in the Pension Increase Rate	8	137,236

At 31 March 2018, the Council owed £3.15m (£3.09m 31 March 2017) 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 2016, can be found on pages 96 to 126.

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 2017. 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 Fund has agreed a strategy with its Actuary to achieve a funding level of 100% over the next 21 years. The funding level for the Fund is monitored on a regular basis. The next triennial valuation is due to be completed on 31 March 2019.

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 2020 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 2016 actuarial valuation report (link below) dated March 2017.

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

The estimate of the Employer's contributions for the period to 31 March 2019 will be approximately £28.817m. The weighted average duration of the defined benefit obligation for scheme members as at the date of the 2016 valuation was 17.1 years.

45. Contingent Liabilities

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

46. Contingent Assets

A Global Litigation Order to the High Court seeking the issue of an invoice for VAT and interest on universal postage services provided by the Royal Mail from 1973 to date, this is for a sum in excess of £1.9 million.

Following a Case Management Hearing on 12 and 13 December 2017 it was agreed to hold three mini-trials to address discrete points in the Autumn of 2018 meaning a decision is unlikely before early 2019.

47. Nature and extent of risks arising from Financial Instruments

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing strategies and policies to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members in addition to the half-yearly treasury management report.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Full Council on 7 February 2017 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2017/18 was set at £396 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £376 million. This is the expected level of debt and other long term liabilities during the year;
- The maximum amounts of fixed and variable rate interest rate exposure were set at 100% and 15% based on the Council's net debt;

- The maximum and minimum exposures to the maturity structure of debt are shown under the Refinancing and Maturity Risk section of this note.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody and Standard & Poors Ratings services. The Treasury Management Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council's Treasury Management is kept under constant review and due to the exceptional risks of the international financial crisis the strategy was amended a number of times since 2008/09. Whilst the credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. The credit criteria in respect of financial assets held by the Council at 31 March 2018 are detailed below.

Officers regularly review the investment portfolio, counterparty risk and construction, and use market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets. The Council in addtion to other tools uses the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands provided they are domiciled in the UK or AAA countries only:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

Yellow	***Purple***	***Blue***	***Orange***	***Red***	***Green***	***No Colour***
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yr*	*Up to 6 mths*	*Up to 100 days*	*Not used*

The Link Asset Services (formerly Capita Asset Services) credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal parameters.

The Council's maximum exposure to credit risk in relation to its investments in banks of £179.0m, cash deposits of £70.2m and local authorities £17.5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period. In October 2008, the Icelandic banking sector defaulted on its obligations but the Council had no funds invested in this sector. All the Council's deposits are made through the London Money Markets. As at 31 March 2018, the Council's investments and cash deposits included £256.7m with UK banks and local authorities and £10.0m with Svenska Handlesbanken, a Swedish bank. The Council does not expect any losses from non-performance by any of its counterparties in relation to its deposits.

The following analysis summaries the Council's maximum exposure to credit risk from customers, based on experience of default and adjusted to reflect current market conditions. The Council does not generally allow credit for its customers, however £12.8m in 2017/18 (£11.1m 2016/17) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2017	31 March 2018
	£000	£000
Less than three months	7,878	10,177
Three to five months	1,235	252
Five months to one year	421	685
More than one year	1,542	1,663
Total	**11,076**	**12,777**

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	31 March 2017	31 March 2018
	£000	£000
Less than one year (current assets)	293,914	284,853
Between one and two years	3,229	11,545
Total	**297,143**	**296,398**

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities, including the minimum and maximum limits for fixed interest rates maturing in each period, is as follows:

	Approved Minimum Limit	Approved Maximum Limit	31 March 2017	31 March 2018
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	104,323	116,869
Between one and two years	0%	40%	18,382	18,890
Between two and five years	0%	60%	39,376	64,089
Between five and ten years	0%	80%	55,450	56,682
More than ten years	0%	80%	237,795	196,211
Total			**455,326**	**452,741**

All trade and other payables are due to be paid in less than one year.

Market risk

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

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

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

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

If all interest rates had been 1% higher (with all other variables held constant) the financial effect in 2017/18 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	702
Impact on Comprehensive Income and Expenditure	**702**

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £0.70 million (£0.24 million in 2016/17) represents the immediate impact on the Council investments that are on variable rate, but ignores the impact of short-term fixed rate investments. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

The Council has a 19% 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 liability of the company at 31 March 2017 was £8,566 (£14,623 31 March 2016). 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.

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

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

48. Trust Funds

The Council administers various funds for the benefit of individuals or groups of people. The income of such funds is not available for general use and the accounts are kept separate from those of the Council.

The term 'trust fund' includes money held on behalf of individuals, such as Social Services clients. In these cases, the holding is virtually a personal bank account and is not invested by the Council. The Council holds monies and acts as sole trustee for the following trusts:

- Music Trust: for the provision of tuition in music;
- Robertsbridge Youth Centre: interest from money raised by the sale of land at the youth centre, applied towards youth services in Robertsbridge;
- Lewes Educational Charity: interest from money raised by the sale of former educational premises, applied towards education in Lewes and the surrounding area;
- How Scholarship: assistance to individuals in the Borough of Hastings;
- Wright Legacy: for the purchase of particular classes of books for Eastbourne Library;
- The Ashdown Forest Trust is held for the purposes of promoting the conservation of the Ashdown Forest as an amenity and place of resort for members of the public. An independent examination of the Trust Fund accounts is provided by external auditors.

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

	2017/18			
	Opening Balance £000	**Income £000**	**Expenditure £000**	**Closing Balance £000**
Sole trustee funds				
Music Trust	593	2	(16)	579
Robertsbridge Youth Centre	107	1	(2)	106
Lewes Educational Charity	59	-	-	59
How Scholarship	5	-	-	5
Wright Legacy	2	-	-	2
Total sole trustee funds	**766**	**3**	**(18)**	**751**
Ashdown Forest Trust	1,356	70	(72)	1,354
General trust funds	60	1	(3)	58
Comforts funds	69	8	(9)	68
Total trust funds	**2,251**	**82**	**(102)**	**2,231**

49. 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 2018, the liability had reduced to £9.56m (£9.68m at 31 March 2017).

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 30), 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 £2.0m at 31 March 2018 (£2.0m at 31 March 2017).

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.

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn 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 has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the administration of the LGPS. The main services provided by Orbis include maintenance of scheme members’ records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

Although the day to day work associated with administering the LGPS has been passed to Orbis, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that Orbis undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participating employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

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 2016. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. The County Council 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.

Currently within the East Sussex Pension Fund there are 132 participating employers. A full list of participating employers is given at Note 29.

Pension Fund Account for the year ended 31 March 2018

2016/17 £000	2016/17 £000		Notes	2017/18 £000	2017/18 £000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(93,918)		From Employers		(95,189)	
(27,900)		From Members		(28,902)	
	(121,818)				(124,091)
	(8,554)	Transfers in from other pension funds	8		(7,325)
	(130,372**)**				(131,416)
	120,776	Benefits	9		123,905
	3,626	Payments to and on account of leavers	10		39,592
	124,402				163,497
	(5,970)	**Net (additions)/withdrawals from dealings with members**			**32,081**
	13,591	**Management expenses**	**11**		**13,330**
		Returns on investments			
	(43,060)	Investment income	12		(38,198)
	391	Taxes on income	13a		399
	(536,030)	Profit and losses on disposal of investments and changes in the market value of investments	14a		(48,549)
	(578,699)	**Net return on investments**			**(86,348)**
	(571,078)	**Net increase in fund during the year**			**(40,937)**
	(2,771,365)	Add opening net assets of the scheme			(3,342,443)
	(3,342,443)	**Closing net assets of the scheme**			**(3,383,380)**

Net Assets Statement for the year ended 31 March 2018

31 March 2017 £000		Notes	31 March 2018 £000
3,198,119	Investment assets	14	3,242,925
4,161	Other Investment balances	21	2,256
(1,680)	Investment liabilities	22	(3,198)
134,212	Cash deposits	14	133,789
3,334,812	**Total net investments**		**3,375,772**
10,703	Current assets	21	10,704
(3,072)	Current liabilities	22	(3,096)
3,342,443	**Net assets of the fund available to fund benefits at the year end.**		**3,383,380**

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 2018 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

17 July 2018.

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 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 2017/18 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.

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the East Sussex Pension Fund include:

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

There are 132 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	127	132
Number of employees		
County Council	8,252	8,157
Other employees	15,315	16,413
Total	**23,567**	**24,570**
Number of pensioners		
County Council	8,402	8,708
Other employers	10,410	10,889
Total	**18,812**	**19,597**
Deferred pensioners		
County Council	13,685	13,558
Other employers	15,168	15,695
Total	**28,853**	**29,253**

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 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 6.7% to 44.5% 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, summarised below:

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

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 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

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

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

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

b) Transfers to and from other schemes

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

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

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

Bulk (group) transfers are accounted for on a receipts basis in accordance with the terms of the transfer agreement.

c) Investment income

i. Interest income

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

ii. Dividend income

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

iii. Distributions from pooled funds

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

iv. Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's 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.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. 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.

Investment management expenses

All investment management expenses are accounted for an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

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 2016/17, £1.6m of fees is based on such estimates (2015/16: £1.0m).

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined 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 (see Note 15).

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

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

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).

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 2012. The value of unquoted private equities at 31 March 2018 was £182.8 million (£191.3 million at 31 March 2017).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2016 Valuation the actuary advised that: • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £101 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £91 million (3%). • A change in methodology from peaked to non-peaked longevity would increase the liability by approximately £94 million (3%).
Debtors	At 31 March 2018, the fund had a balance of sundry debtors of £1.5 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £182.8 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6: Events after the balance sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2016/17	2017/18
	£000	**£000**
By category		
Employee's contributions	27,900	28,902
Employer's contributions		
Normal contributions	87,505	81,427
Deficit recovery contributions	5,030	13,083
Augmentation contributions	1,383	679
Total	**121,818**	**124,091**
By authority		
Scheduled bodies	74,461	77,156
Admitted bodies	4,098	3,572
Administrative Authority	43,259	43,363
Total	**121,818**	**124,091**

8: Transfers in from other pension funds

	2016/17 £000	2017/18 £000
Group transfers	-	-
Individual transfers	8,554	7,325
Total	**8,554**	**7,325**

9: Benefits payable

	2016/17 £000	2017/18 £000
By category		
Pensions	101,092	102,800
Commutation and lump sum retirement benefits	17,007	17,780
Lump sum death benefits	2,677	3,325
Total	**120,776**	**123,905**
By authority		
Scheduled bodies	68,685	70,040
Admitted bodies	3,134	3,997
Administrative Authority	48,957	49,868
Total	**120,776**	**123,905**

10: Payments to and on account of leavers

	2016/17 £000	2017/18 £000
Refunds to members leaving service	343	387
Group transfers	520	28,467*
Individual transfers	2,763	10,738
Total	**3,626**	**39,592**

* Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 with assets of £28.467m

11: Management expenses

	2016/17 £000	2017/18 £000
Administrative costs	1,037	1,005
Investment management expenses	11,811	11,652
Oversight and governance costs	743	673
Total	**13,591**	**13,330**

Investment management expenses

	2016/17 £000	2017/18 £000
Management fees	11,444	11,354
Custody fees	68	83
Transaction costs*	299	215
Total	**11,811**	**11,652**

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

During the year, the Pension Fund incurred management fees which were deducted at source for 2017/18 of £2.4m (£2.7m in 2016/17) on its private equity investments, fees of £0.3m (£0.6m in 2016/17) on its infrastructure investments and fees of £1.4m (£0.7m in 2016/17) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2016/17	2017/18
	£000	£000
Income from bonds	2,559	1,949
Income from equities	6,656	6,864
Private equity income	147	49
Pooled property investments	10,287	10,750
Pooled investments - unit trusts and other managed funds	22,963	18,133
Interest on cash deposits	382	393
Class Actions	66	60
Total	**43,060**	**38,198**

13: Other fund account disclosures

13a: Taxes on income

	2016/17	2017/18
	£000	£000
Withholding tax – equities	(179)	(203)
Withholding tax – pooled	(212)	(196)
Total	**(391)**	**(399)**

13b: External audit costs

	2016/17	2017/18
	£000	£000
Payable in respect of external audit	27	27
Payable in respect of other services	-	-
Total	**27**	**27**

14: Investments

	2016/17	2017/18
	£000	£000
Investment assets		
Bonds	478,518	497,920
Equities	341,077	363,116
Pooled Investments	1,820,986	1,828,109
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921
Derivative contracts:		-
Forward Currency Contracts	712	480
	3,198,831	**3,243,404**
Cash deposits with Custodian	134,212	133,789
Other Investment balances (Note 21)	3,449	1,777
Total investment assets	**3,336,492**	**3,378,970**
Investment Liabilities (Note 22)	(1,669)	(3,198)
Derivative contracts:		
Forward Currency Contracts	(11)	-
Total Investment Liabilities	**(1,680)**	**(3,198)**
Net investment assets	**3,334,812**	**3,375,772**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2017	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 2018
	£000	£000	£000	£000	£000
Bonds	**478,518**	281,469	(267,961)	5,894	**497,920**
Equities	**341,077**	118,567	(96,740)	212	**363,116**
Pooled investments	**1,820,986**	1,925,067	(1,943,746)	25,802	**1,828,109**
Pooled property investments	**321,767**	27,060	(29,319)	24,903	**344,411**
Private equity/infrastructure	**227,497**	23,073	(45,079)	(4,531)	**200,960**
Commodities	**4,930**	4,895	(5,071)	(267)	**4,487**
Multi Asset	**3,344**	5,359	-	(4,782)	**3,921**
	3,198,119	**2,385,490**	**(2,387,916)**	**47,231**	**3,242,924**
Derivative contracts					
■ Forward currency contracts	**701**	5,485	(8,713)	3,007	**480**
	3,198,820	**2,390,975**	**(2,396,629)**	**50,238**	**3,243,404**
Other investment balances:					
■ Cash deposits	**134,212**			(1,689)	**133,789**
■ Other Investment Balances	**3,449**				**1,777**
■ Investment Liabilities	**(1,669)**				**(3,198)**
Net investment assets	**3,334,812**			**48,549**	**3,375,772**

	Market value 1 April 2016	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 2017
	£000	£000	£000	£000	£000
Bonds	**429,154**	42,918	(60,764)	67,210	**478,518**
Equities	**290,442**	84,564	(107,578)	73,649	**341,077**
Pooled investments	**1,420,022**	26,862	(5,670)	379,772	**1,820,986**
Pooled property investments	**322,775**	18,831	(21,089)	1,250	**321,767**
Private equity/infrastructure	**216,898**	21,915	(35,954)	24,638	**227,497**
Commodities	**3,613**	3,878	(3,109)	548	**4,930**
Multi Asset	**1,585**	5,617	-	(3,858)	**3,344**
	2,684,489	**204,585**	**(234,164)**	**543,209**	**3,198,119**
Derivative contracts					
■ Forward currency contracts	**1,647**	47,914	(39,295)	(9,565)	**701**
	2,686,136	**252,499**	**(273,459)**	**533,644**	**3,198,820**
Other investment balances:					
■ Cash deposits	**79,131**			2,386	**134,212**
■ Other Investment Balances	**1,375**				**3,449**
■ Investment Liabilities	**(1,510)**				**(1,669)**
Net investment assets	**2,765,132**			**536,030**	**3,334,812**

14b: Analysis of investments

	2016/17	2017/18
	£000	£000
Bonds		
UK		
Corporate quoted	200,893	132,119
Public sector quoted	271,704	339,720
Overseas		
Public sector quoted	5,921	26,081
	478,518	**497,920**
Equities		
UK		
Quoted	51,161	59,570
Unquoted	3,627	958
Overseas		
Quoted	286,289	302,588
	341,077	**363,116**
Pooled funds - additional analysis		
UK		
Unit trusts	647,124	641,509
Overseas		
Unit trusts	1,173,862	1,186,600
	1,820,986	**1,828,109**
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921
Derivatives	712	480
	558,250	**554,259**
Cash deposits	134,212	133,789
Other investment balances (Note 21)	3,449	1,777
	137,661	**135,566**
Total investment assets	**3,336,492**	**3,378,970**
Investment Liabilities (Note 22)	(1,669)	(3,198)
Derivatives	(11)	-
Total Investment Liabilities	**(1,680)**	**(3,198)**
Net investment assets	**3,334,812**	**3,375,772**

14c: Investments analysed by fund manager

	Market value 31 March 2017		Market value 31 March 2018	
	£000	%	£000	%
Prudential M&G	128,577	3.9%	132,124	3.9%
East Sussex Pension Fund Cash	53,220	1.6%	65,515	1.9%
UBS Infrastructure Fund	22,850	0.7%	19,027	0.6%
Prudential Infracapital	13,952	0.4%	-	0.0%
Legal & General	1,050,300	31.4%	-	0.0%
M&G UK Financing Fund	5,234	0.2%	958	0.0%
Schroders Property	327,945	9.8%	353,310	10.5%
Harbourvest Strategies	89,752	2.7%	86,705	2.6%
Adams St Partners	101,559	3.0%	96,129	2.8%
M&G Absolute Return Bonds	72,335	2.2%	75,014	2.2%
Ruffer LLP	292,582	8.8%	316,959	9.4%
Newton Investment Management	285,931	8.6%	308,431	9.1%
Longview Partners	233,171	7.0%	236,143	7.0%
State Street Global Advisers	657,404	19.7%	-	0.0%
UBS Passive Funds	-	0.0%	1,685,457	50.0%
	3,334,812		**3,375,772**	

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

Security	Market Value 31 March 2017	% of total fund	Market value 31 March 2018	% of total fund
	£000		£000	
UBS Fundamental Index	-	0.0%	611,429	18.1%
UBS World Equity Index	-	0.0%	508,242	15.1%
UBS UK Equity Index	-	0.0%	325,708	9.6%
Newton Real Return (Pooled Fund)	285,931	8.6%	308,431	9.1%
UBS Over 5 year Index Gilt Linked	-	0.0%	180,995	5.4%
State Street Fundamental Index	657,404	19.7%	-	0.0%
L&G UK Equity Index	319,171	9.6%	-	0.0%
L&G North America Equity Index	310,596	9.3%	-	0.0%
L&G Over 5 year Index Gilt Linked	179,595	5.4%	-	0.0%

14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th 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.

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.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to 2 months	USD	1,135	GBP	(809)	-	-
Up to 2 months	EUR	180	GBP	(158)	-	-
Greater than 2 months	GBP	7,398	EUR	(8,322)	85	-
Greater than 2 months	GBP	48,396	JPY	(7,148,471)	395	-
					480	-
Net forward currency contracts at 31 March 2018						**480**
Prior year comparative						
Open forward currency contracts at 31 March 2017					712	(11)
Net forward currency contracts at 31 March 2017						**701**

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
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	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 consequent potential impact on the closing value of investments held at 31 March 2018.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Equities	18%	20,758	24,494	17,022
Pooled property investments	14%	344,411	392,629	296,193
Private Equity/Infrastructure	28%	200,960	255,219	146,701
Total		**566,129**	**672,342**	**459,916**

16a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

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

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	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	809,092	1,869,959	566,130	3,245,181
Non-financial assets at fair value through profit and loss	0	0	0	0
Financial liabilities at fair value through profit and loss	0	(3,198)	0	(3,198)
Net investment assets	**809,092**	**1,866,761**	**566,130**	**3,241,983**

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	2,448,904	184,760	568,616	**3,202,280**
Non-financial assets at fair value through profit and loss	-	-	-	**-**
Financial liabilities at fair value through profit and loss	-	(1,680)	-	**(1,680)**
Net investment assets	**2,448,904**	**183,080**	**568,616**	**3,200,600**

16b: Transfers between levels 1 and 2

During 2016/17 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2017/18	**Market value 1 April 2017**	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	**Market value 31 March 2018**
Equities	**19,352**	-	-	7,901	(4,348)	(4,157)	2,010	**20,758**
Pooled property investments	**321,767**	-	-	27,060	(29,319)	13,891	11,013	**344,412**
Private Equity/Infrastructure	**227,497**	-	-	23,073	(42,386)	(33,676)	26,452	**200,960**
Total	**568,616**	**-**	**-**	**58,034**	**(76,053)**	**(23,942)**	**39,475**	**566,130**

Period 2016/17	**Market value 1 April 2016**	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	**Market value 31 March 2017**
Bonds	**5,534**	-	-	-	(5,607)	(386)	459	**-**
Equities	**30,318**	-	-	-	(8,748)	(2,496)	278	**19,352**
Pooled property investments	**315,888**	9,249	-	26,130	(31,032)	(8,662)	10,194	**321,767**
Private Equity/Infrastructure	**216,898**	-	-	21,915	(32,626)	316	20,994	**227,497**
Total	**568,638**	**9,249**	**-**	**48,045**	**(78,013)**	**(11,228)**	**31,925**	**568,616**

17: Financial instruments

17a: 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 2017				31 March 2018		
Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
478,518	-	-	Bonds	497,920	-	-
341,077	-	-	Equities	363,116	-	-
1,820,986	-	-	Pooled investments	1,828,109	-	-
321,767	-	-	Pooled property investments	344,411	-	-
227,497	-	-	Private equity/infrastructure	200,960	-	-
4,930	-	-	Commodities	4,487	-	-
3,344	-	-	Multi Asset	3,921	-	-
712	-	-	Derivative contracts	480	-	-
-	134,212	-	Cash	-	133,789	-
-	399	-	Cash held by ESCC	-	-	-
3,449	-	-	Other investment balances	1,777	-	-
-	10,304	-	Debtors	-	10,704	-
3,202,280	**144,915**	**-**	**Total Financial Assets**	**3,245,181**	**144,493**	**-**
			Financial liabilities			
(11)	-	-	Derivative contracts	-	-	-
(1,669)	-	-	Other investment balances	(3,198)	-	-
			Cash held by ESCC	-	-	(3)
-	-	(3,072)	Creditors	-	-	(3,093)
(1,680)	**-**	**(3,072)**	**Total Financial Liabilities**	**(3,198)**	**-**	**(3,096)**
3,200,600	**144,915**	**(3,072)**	**Total Financial Instruments**	**3,241,983**	**144,493**	**(3,096)**

17b: Net gains and losses on financial instruments

	31 March 2017	31 March 2018
	£000	£000
Financial assets		
Fair value through profit and loss	543,255	51,065
Loans and receivables	2,340	(2,510)
Financial liabilities		-
Fair value through profit and loss	(9,565)	(6)
Total	**536,030**	**48,549**

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 fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund’s investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	8%
UK equities	17%
Global equities	18%
Absolute Return	13%
Pooled property investments	14%
Private Equity	28%
Infrastructure funds	20%

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

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Values at 31 March 2018	Value on increase	Value on decrease
	£000	£000	£000
Index Linked	180,995	197,285	164,705
Other Bonds	207,133	223,075	191,191
UK equities	326,665	382,198	271,132
Global equities	1,411,750	1,665,865	1,157,635
Absolute Return	571,010	645,241	496,779
Pooled property investments	344,411	392,629	296,193
Private Equity	181,933	232,874	130,992
Infrastructure funds	19,027	22,832	15,222
Net derivative assets	480	480	480
Total assets available to pay benefits	**3,243,404**	**3,762,479**	**2,724,329**

Asset Type	Values at 31 March 2017	Value on increase	Value on decrease
	£000	£000	£000
Index Linked	179,611	195,776	163,446
Other Bonds	200,893	218,973	182,813
UK equities	358,102	415,398	300,806
Global equities	1,396,045	1,647,334	1,144,758
Pooled property investments	514,204	581,049	447,357
Private Equity	321,767	366,814	276,720
Infrastructure funds	190,695	245,996	135,394
Absolute Return	36,802	44,162	29,442
Net derivative assets	701	701	701
Total assets available to pay benefits	**3,198,820**	**3,716,203**	**2,681,437**

Interest rate risk

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

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

The fund’s direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2017	As at 31 March 2018
	£000	£000
Cash with Custodian	134,212	133,789
Cash balances	399	(3)
Fixed interest securities	200,893	227,951
Total	**335,504**	**361,737**

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 2018	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	133,789	-	133,789	133,789
Cash balances	(3)	-	(3)	(3)
Fixed interest securities	227,951	2,280	230,231	225,671
Total change in assets available	**361,737**	**2,280**	**364,017**	**359,457**

Asset type	Carrying amount as at 31 March 2017	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	134,212	-	134,212	134,212
Cash balances	399	-	399	399
Fixed interest securities	200,893	2,009	202,902	198,884
Total change in assets available	**335,504**	**2,009**	**337,513**	**333,495**

Income Source	Amount receivable as at 31 March 2018	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	393	1,338	1,731	(945)
Fixed interest securities	1,334	-	1,334	1,334
Total change in assets available	**1,727**	**1,338**	**3,065**	**389**

Income Source	Amount receivable as at 31 March 2017	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	382	1,346	1,728	(964)
Fixed interest securities	1,913	-	1,913	1,913
Total change in assets available	**2,295**	**1,346**	**3,641**	**949**

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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

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

The fund’s currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund’s risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2017 £000	Asset value as at 31 March 2018 £000
Overseas index linked	5,921	5,263
Overseas fixed interest	-	20,818
Overseas quoted securities	286,289	302,588
Overseas unit trusts	1,173,862	1,186,600
Total overseas assets	**1,466,072**	**1,515,269**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

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

A 10% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2018	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas index linked	5,263	526	5,789	4,737
Overseas fixed interest	20,818	2,082	22,900	18,736
Overseas quoted securities	302,588	30,259	332,847	272,329
Overseas unit trusts	1,186,600	118,660	1,305,260	1,067,940
Total change in assets available	**1,515,269**	**151,527**	**1,666,796**	**1,363,742**

Currency exposure - asset type	Values at 31 March 2017	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas index linked	5,921	592	6,513	5,329
Overseas quoted securities	286,289	28,629	314,918	257,660
Overseas unit trusts	1,173,862	117,386	1,291,248	1,056,476
Total change in assets available	**1,466,072**	**146,607**	**1,612,679**	**1,319,465**

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 2017 £000	Asset value as at 31 March 2018 £000
Money market funds		
NTGI Global Cash Fund	78,993	-
Short term bills and notes		
UK Treasury bills	50,033	36,097
Bank current accounts		
NT custody cash accounts	5,186	97,692
Total overseas assets	**134,212**	**133,789**

c) Liquidity risk

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

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

All financial liabilities at 31 March 2018 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

The latest actuarial valuation of the fund was carried out as at 31 March 2016. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2016 valuation shows the fund has a past service deficit, being 92% funded in respect of past liabilities. This compares with 81% funded at the 2013 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,771 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £240 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Figures assume members aged 45 as at the 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/2017. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

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

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of Promised Retirement Benefits

Year ended	31 March 2017	31 March 2018
Active members (£m)	1,717	1,867
Deferred pensions (£m)	930	925
Pensioners (£m)	1,612	1,548
Total	**4,258**	**4,340**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £83m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended	31 Mar 2017 % p.a.	31 Mar 2018 % p.a.
Pension Increase Rate	2.4%	2.4%
Salary Increase rate	2.8%	2.8%
Discount Rate	2.6%	2.7%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2016.

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	8%	350
0.5% increase in salary increase rate	1%	58
0.5% decrease in discount rate	10%	433

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

21: Current assets

	31 March 2017 £000	31 March 2018 £000
Other Investment Balances		
Sales inc Currency	2,554	480
Investment Income Due	1,178	1,371
Recoverable Taxes	411	405
Managers Fee Rebate	18	-
Total	**4,161**	**2,256**

	31 March 2017 £000	31 March 2018 £000
Current Assets		
Contributions receivable from employers and employees	9,126	9,254
Sundry Debtors	1,178	1,450
Cash	399	-
Total	**10,703**	**10,704**

22: Current liabilities

	31 March 2017 £000	31 March 2018 £000
Investment Liabilities		
Purchases inc currency	(11)	(1,846)
Managers Fees	(1,669)	(1,352)
Total	**(1,680)**	**(3,198)**

	31 March 2017 £000	31 March 2018 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(454)	(439)
Cash	-	(3)
Professional Fees	(65)	(84)
Administration Recharge	(1,314)	(1,300)
Sundry Creditors	(1,239)	(1,270)
Total	**(3,072)**	**(3,096)**

23: Additional voluntary contributions

	Market value 31 March 2017 £000	Market value 31 March 2018 £000
Prudential	15,772	15,923

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2017/18 some members of the pension scheme paid voluntary contributions and transfers in of £2.618m (£2.053m 2016/17) to Prudential to buy extra pension benefits when they retire. £3.434m was disinvested from the AVC provider in 2017/18 (£2.353m 2016/17). 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.

	2016/17	2017/18
	£000	£000
East Sussex County Council	4,979	4,891
Brighton & Hove City Council	2,306	2,330
West Sussex County Council*	3	985
Eastbourne Borough Council	349	331
Magistrates	239	240
Wealden District Council	188	183
Hastings Borough Council	180	171
Rother District Council	117	117
Mid-Sussex District Council	55	87
Lewes District Council	79	76
The Eastbourne Academy	6	56
South East Water	70	54
Brighton University	26	26
Westminster (used to be LPFA)	17	17
East Sussex Fire Authority	17	16
Capita Hartshead	15	16
Brighton and Hove City College*	10	-
London Borough of Camden	7	7
London Borough of Southwark	6	6
West Midlands Pension Fund	5	5
Torfaen Borough Council	3	4
Sussex University	-	3
Eastbourne Homes	2	3
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven TC	1	1
Mears Group PLC	12	-
Total	**8,697**	**9,630**

***** Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 East Sussex are still administering the Brighton and Hove City College members at the request of West Sussex until the records are transferred to their administrators.

25: Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently there is a strong relationship between the council and the pension fund.

Each member of the Pension 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 £1.3m to the fund in 2017/18 (£1.3m in 2016/17). The Council`s contribution to the fund was £43.4m in 2017/18 (£43.3m in 2016/17). All amounts due to the fund were paid in the year. At 31 March 2018 the Pension Fund bank account was in debit by £0.003m. The average invested throughout the year was £3.5m (£4.8 in 2016/17) and earned interest of £0.018m in 2017/18 (£0.028m in 2016/17).

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 2017	31 March 2018
	£000	**£000**
Short-term benefits	10	17
Post-employment benefits	1	3
Other long-term benefits	-	-
Termination benefits	9	-
Total	**20**	**20**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £133.1m (31 March 2017: £82.0m).

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 2018 the unfunded commitment was £84.1m for private equity, and £49.0m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2018.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. The Fund received an offer from Liquidator and has been advised by both external and internal legal advisors that the Fund should accept the offer of £144,000.00 made by the Liquidator, with the remainder of the balance being distributed to the other creditors with statutory interest. A report was sent to the Lead Member for Resources recommending the offer be accepted.

27: Contingent assets

Seventeen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension’s obligations in respect of 14 other admitted bodies are covered by:

- 9 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2018 the Fund has invested £260.7 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £23.7 million in the infrastructure funds managed by UBS.

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 2017/18 the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	3860	17.1	4635	17.1	5448
East Sussex County Council	17.85	5523	17.85	6369	17.85	7254
East Sussex Fire and Rescue Service	17.75	181	17.75	213	17.75	247
Eastbourne Borough Council	17.65	547	17.65	599	17.65	654
Hastings Borough Council	18.05	489	18.05	540	18.05	594
Lewes District Council	18.0	442	18.0	495	18.0	551
Rother District Council	18.05	506	18.05	550	18.05	596
University of Brighton	17.50	704	17.50	722	17.50	741
Wealden District Council	17.95	536	17.95	594	17.95	655
Other Scheduled Bodies						
Arlington Parish Council	21.6	-	22.1	-	22.6	-
Battle Town Council	17.4	4	17.4	5	17.4	6
Berwick Parish Council	21.6	-	22.1	-	22.6	-
Buxted Parish Council	21.6	-	22.1	-	22.6	-
Camber Parish council	21.6	-	22.1	-	22.6	-
Chailey Parish Council	21.6	-	22.1	-	22.6	-
Chalvington with Ripe Parish Council	21.6	-	22.1	-	22.6	-
Chiddingly Parish Council	21.6	-	22.1	-	22.6	-
Conservators of Ashdown Forest	17.4	13	17.4	15	17.4	17
Crowborough Town Council	17.4	11	17.4	12	17.4	14
Danehill Parish Council	21.6	-	22.1	-	22.6	-
Ditchling Parish Council	21.6	-	22.1	-	22.6	-
Ewhurst Parish Council	21.6	-	22.1	-	22.6	-
Fletching Parish Council	21.6	-	22.1	-	22.6	-
Forest Row Parish Council	17.4	3	17.4	3	17.4	4
Frant Parish Council	21.6	-	22.1	-	22.6	-
Hadlow Down	21.6	-	22.1	-	22.6	-
Hailsham Town Council	17.4	13	17.4	15	17.4	17
Hartfield Parish Council	21.6	-	22.1	-	22.6	-
Heathfield & Waldron Parish Council	17.4	4	17.4	5	17.4	5
Herstmonceux Parish Council	21.6	-	22.1	-	22.6	-
Hurst Green Parish Council	21.6	-	22.1	-	22.6	-
Icklesham Parish Council	21.6	-	22.1	-	22.6	-
Isfield Parish Council	21.6	-	22.1	-	22.6	-
Lewes Town Council	17.4	14	17.4	16	17.4	19
Maresfield Parish Council	17.4	1	17.4	1	17.4	1
Newhaven Town Council	17.4	5	17.4	6	17.4	6
Newick Parish Council	21.6	-	22.1	-	22.6	-
Peacehaven Town Council	17.4	8	17.4	9	17.4	10
Pett Parish Council	21.6	-	22.1	-	22.6	-
Plumpton Parish Council	21.6	-	22.1	-	22.6	-
Polegate Town Council	21.6	-	22.1	-	22.6	-
Ringmer Parish Council	21.6	-	22.1	-	22.6	-
Rye Town Council	17.4	2	17.4	2	17.4	2
Salehurst & Robertsbridge Parish Council	21.6	-	22.1	-	22.6	-
Seaford Town Council	17.4	6	17.4	7	17.4	8

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Sussex Inshore Fisheries & Conservation Authority	21.6	-	22.1	-	22.6	-
Telscombe Town Council	17.4	4	17.4	4	17.4	5
Uckfield Town Council	17.4	13	17.4	15	17.4	17
Wartling Parish Council	21.6	-	22.1	-	22.6	-
Westham Parish Council	17.4	1	17.4	2	17.4	2
Willingdon and Jevington Parish Council	17.4	2	17.4	2	17.4	2
Wivelsfield Parish Council	17.4	1	17.4	1	17.4	2
Academy Schools						
ARK Schools Hastings	20.1	-	20.6	-	21.1	-
ARK William Parker Academy	20.1	-	20.6	-	21.1	-
Aurora Academies Trust	20.9	-	20.9	-	20.9	-
Beacon Academy	22.5	-	23.0	-	23.5	-
Bexhill Academy	23.4	-	23.4	-	23.4	-
Bilingual Primary School	15.1	-	15.6	-	16.1	-
Breakwater Academy	17.5	-	17.5	-	17.5	-
Brighton Aldridge Community Academy	19.5	-	20.0	-	20.5	-
Burfield Academy (Hailsham Primary)	21.5	-	21.0	-	20.5	-
Cavendish Academy	21.0	-	21.0	-	21.0	-
City Academy Whitehawk	22.1	-	22.6	-	22.8	-
Diocese of Chichester Academy Trust	25.9	-	25.4	-	24.9	-
Eastbourne Academy	20.9	-	21.4	-	21.7	-
Gildredge House Free School	20.1	-	20.1	-	20.1	-
Glyne Gap Academy	22.9	-	22.4	-	21.9	-
Hailsham Academy	19.7	-	20.2	-	20.5	-
Hawkes Farm Academy	16.9	-	16.9	-	16.9	-
High Cliff Academy (Newhaven Primary)	21.5	-	21.0	-	20.5	-
Jarvis Brook Academy	15.0	-	15.0	-	15.0	-
King's Academy Ringmer	20.3	-	20.8	-	21.3	-
King's Church of England Free School	15.7	-	16.2	-	16.7	-
Ore Village Academy	18.7	-	19.0	-	19.0	-
Parkland Infant Academy	15.9	-	15.9	-	15.9	-
Parkland Junior Academy	15.2	-	15.2	-	15.2	-
Pebsham Academy (TKAT)	19.0	-	19.5	-	20.0	-
Phoenix Academy (Marshlands)	20.6	-	20.9	-	20.9	-
Portslade Aldridge Community Academy	20.4	-	20.4	-	20.4	-
Ratton Academy	21.6	-	-	-	-	-
Rye Academy	22.5	-	22.0	-	21.5	-
SABDEN Multi Academy Trust	25.1	-	24.6	-	24.1	-
Seaford Academy	21.9	-	21.6	-	21.6	-
Seahaven Academy	21.0	-	21.5	-	22.0	-
Shinewater Primary Academy	15.3	-	15.3	-	15.3	-
Sir Henry Fermor	15.3	-	15.3	-	15.3	-
The South Downs Learning Trust	12.7	-	12.7	-	12.7	-
The Southfield Trust	14.9	-	14.9	-	14.9	-
Torfield & Saxon Mount Academy Trust	22.1	-	22.6	-	23.1	-
University of Brighton Academies Trust	20.1	-	20.5	-	20.5	-
UTC@Harbourside	21.5	-	21.0	-	20.5	-
White House Academy	17.0	-	17.5	-	18.0	-
Colleges						

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Bexhill 6th Form College	16.6	23	16.6	30	16.6	38
Brighton, Hove & Sussex Sixth Form College (BHASVIC)	17.2	21	17.2	29	17.2	38
City College Brighton & Hove	16.2	138	16.2	161	16.2	186
Plumpton College	16.7	44	16.7	58	16.7	73
East Sussex College Group	-	-	17.2	117	17.2	171
Sussex Coast College	17.55	63	-	-	-	-
Sussex Downs College	17.4	3	-	-	-	-
Varndean Sixth Form College	17.5	12	17.5	19	17.5	25
Admission Bodies						
Accent Catering Services Ltd	0.0	-	0.0	-	0.0	-
Amey	0.0	-	0.0	-	0.0	-
Brighton and Hove CAB	28.7	-	28.7	-	28.7	-
Brighton Dome & Festival Limited	44.5	16	44.5	36	44.5	57
Brighton Dome & Festival Limited (BHCC)	20.7	-	20.7	-	20.7	-
Care at Home Services	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	35.0	-	35.0	-	35.0	-
Care Quality Commission	41.6	59	41.6	143	41.6	231
Churchill Services	18.0	-	18.0	-	18.0	-
Civica ICT	14.3	-	14.3	-	14.3	-
De La Warr Pavilion Charitable Trust	43.7	61	43.7	132	43.7	207
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	21.9	-	23.4	-	24.5	2
Eastbourne Homes - SEILL	21.9	-	21.9	-	21.9	-
Eastbourne Leisure Trust (Serco)	25.8	17	25.8	18	25.8	18
Grace Eyre	27.5	-	27.5	-	27.5	-
Halcrow Group Ltd	23.6	-	23.6	-	23.6	-
Hardings Catering Ltd	0.0	-	0.0	-	0.0	-
Hastings Business Operations Limited (HBOL)	23.6	-	27.1	-	27.6	4
Interserve Catering Services Ltd	0.0	-	0.0	-	0.0	-
ISS Ltd (WDC)	0.0	-	0.0	-	0.0	-
John O'Connor (ESCC)	0.0	-	0.0	-	0.0	-
Kier (WDC)	0.0	-	0.0	-	0.0	-
Mears Ltd (BHCC)	26.3	14	26.3	14	26.3	15
Mears Ltd (LDC)	33.9	-	33.9	-	33.9	-
MyTime	13.8	-	13.8	-	13.8	-
NSL Ltd (ESCC)	0.0	-	0.0	-	0.0	-
Optivo (AmicusHorizon)	39.2	554	39.2	879	39.2	1221
SCDA (Sussex Community Development Association Ltd)	26.4	-	26.4	-	26.4	-
Sopra Steria	31.9	-	31.9	-	31.9	-
Sussex Archaeological Society	38.6	57	38.6	82	38.6	108
Sussex County Sports Partnership	21.0	-	21.0	-	21.0	-
Sussex Housing & Care	35.9	133	35.9	101	35.9	67
Telent Technology Service Limited	24.9	-	24.9	-	24.9	-
Towner	11.5	-	11.5	-	11.5	-
Wave Leisure Newhaven Fort	18.0	-	18.0	-	18.0	-
Wave Leisure Trust Ltd	9.0	-	9.0	-	9.0	-
Wealden Leisure Ltd - BHCC	21.2	-	21.2	-	21.2	-
Wealden Leisure Ltd - PSC (Portslade Sports Centre)	12.3	-	12.3	-	12.3	-

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Wealden Leisure Ltd - WDC	27.1	86	27.1	89	27.1	91
White Rock Theatres Hastings Ltd	6.7	-	6.7	-	6.7	-

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 58 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	**2.4**	**7.7**	**8.9**	**7.5**
Benchmark	**2.6**	**7.0**	**7.7**	**6.6**
Relative	**(0.2)**	**0.8**	**1.1**	**0.8**

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	**2.4**	**7.7**	**8.8**	**7.5**
Local Authority Average	**4.5**	**8.3**	**8.8**	**7.7**
Relative	**(2.0)**	**(0.6)**	**0.0**	**(0.2)**

The Fund underperformed the (weighted) average local authority fund over the year by 2.0% (0.9% underperformance 2016/17), ranking the East Sussex Fund in the 86th percentile (49th 2016/17) in the local authority universe. Over three years the fund underperformed by 0.6% (0.7% outperformance 2016/17) and was placed in the 47th percentile (28th 2016/17). Over five years the fund performed in line (0.2% outperformance 2016/17) and was placed in the 40th percentile (37th 2016/17). Over ten years the fund years the fund underperformed by 0.2% (in line in 2016/17) and was placed in the 51st percentile (43rd 2016/17).

Relative performance is calculated on a geometric basis as follows:

((1 + Fund Performance) / (1 + 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

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 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.

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.

County Fund

The main revenue fund of the County Council into which is paid income from the council tax precept, grants and charges for services and from which is met the cost of providing services.

Creditors

Amounts owed by the County Council but not paid at the date of the Balance Sheet.

Currencies

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

Curtailments

This heading covers the additional cost arising from the early payment of pension benefits when an employee is made redundant. The full estimated discounted cost is charged immediately to the Comprehensive Income and Expenditure Statement, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

Debtors

Amounts owed to the County Council but unpaid at the date of the Balance Sheet.

Defined Benefit and Contribution Pension Schemes

Pension schemes generally fall into one of these two categories. Defined Benefit schemes are those such as the Local Government Pension Scheme, where the benefits to employees are based on their final salaries, and where employers' contributions have to be adjusted to match estimates of future liabilities. Defined Contribution schemes are those where the employer's liability is restricted to the amount that they contribute. As the Teachers' Pension Scheme is administered nationally, it is treated in local authority accounts as a Defined Contribution scheme, but is actually a defined benefits scheme.

Democratic Representation and Management

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 KPMG 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.

Impairment

Impairment to assets may be physical in nature, such as damage by fire, or caused by a general or specific reduction in prices during the financial year.

Infrastructure

This term covers capital investment on assets such as roads and rights of way.

Intangible Assets

This term includes such items as development expenditure or goodwill, but for local authorities it actually only covers licences for the use of computer software.

IFRS

International Financial Reporting Standards

Leasing

A method of obtaining the use of assets: a rental charge is paid for a specified period, but under operating lease conditions the asset remains the property of the lessor and the County Council has no rights to purchase. Finance leases transfer substantially all the risks and rewards of ownership.

Levies

A contribution which the County Council is required to make towards the costs of the Environment Agency (for flood defence), 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 1st 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, prescribed by Government, to be set aside from revenue for the redemption of debt.

Net Book Value (NBV)

The amount at which fixed assets are included in the Balance Sheet. The NBV is the historical cost or current value less any accumulated depreciation.

Net Worth

The total of all assets less the total of all liabilities. It helps to determine the value of an entity and is also known as Total Net Assets or Total Equity.

Non-Distributed Costs

These are costs which the County Council has to bear, but which do not support any statutory services. This includes three elements of the pension cost (Past Service Cost, Settlements, and Curtailments) which are defined elsewhere, and the costs of properties, which have been declared surplus and are awaiting disposal.

Non-Domestic Rates

A charge on commercial and industrial buildings fixed by the Government and reallocated to local authorities.

Post Balance Sheet Events

A statement of the financial implications of an event taking place after the Balance Sheet date, which has a material effect on the County Council's financial position at the balance sheet date.

Prior Period Adjustments

Material adjustments that 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.

Property, Plant and Equipment (PP&E)

Property, plant and equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. PP&E is a summation of all the Council's purchases of property, plant, and pieces of equipment to that point in time, less any depreciation.

Provisions

Provisions are made for liabilities and losses which have already been incurred at the date of the balance sheet, and for which the amount or dates on which they will arise can be reliably measured.

Public Works Loan Board (PWLB)

A Government agency, which provides the main source of borrowing for local authorities.

Related Parties

This term covers individuals or bodies with which the County Council has a close economic relationship. It includes Members and Chief Officers, Government departments that provide funding, and other bodies that are involved in partnerships with the County Council.

Reserves

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

Revenue

Recurring expenditure principally on pay, running costs of buildings, equipment, and capital financing costs.

Revenue Expenditure Funded from Capital Under Statute

Expenditure which may properly be charged to capital 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. the County 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.

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Business Services Department

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Joanne Lees
Director, Public Sector Audit and Assurance
KPMG LLP
15 Canada Square
London
E14 5GL

date

17 July 2018

Dear Joanne,

This representation letter is provided in connection with your audit of the financial statements of East Sussex County Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;

    ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;

iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:

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

    Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.
8. The Authority has disclosed to you all information in relation to:

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

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

    In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

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

    Included in the Apendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

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

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

    The Authority further confirms that:

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

        • statutory, contractual or implicit in the employer's actions;

        • arise in the UK and the Republic of Ireland or overseas;

        • funded or unfunded; and

        • approved or unapproved,

    have been identified and properly accounted for; and

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

14. The Authority confirms that there have been no material contractual changes to PFI schemes (Private Finance Initiatives) during the 2017/18 financial year.

15. The Authority confirms that the valuation of Property, Plant and Equipment as undertaken at 31 March 2018 is accurate and the valuation basis used and the assumptions applied are reasonable and appropriate for the Authority's assets. The Authority confirms that the use of a contingency provision is appropriate for the needs of the Council's estate.

16. The Authority confirms that the 20 Voluntary Controlled schools recorded on the Authority's balance sheet at 31 March 2018 are appropriate to be reported as under the ownership of the Council, and that no evidence to the contrary has been received or obtained during the 2017/18 financial year.

17. The Authority confirms that it is satisfied that the information supplied to the valuer Montagu Evans for the purposes of undertaking the 2017/18 land and buildings valuation is complete and accurate and appropriate to ensure a materially correct valuation.

This letter was tabled and agreed at the meeting of the Governance Committee on 17 July 2018.

Yours faithfully,

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

Ian Gutsell
Chief Finance Officer

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

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
    - A Balance Sheet as at the end of the period;
    - A Movement in Reserves Statement for the period;
    - A Cash Flow Statement for the period; and
    - Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A penson fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

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

Fraud

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

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

Error

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

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

a) was available when financial statements for those periods were authorised for issue; and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

Management

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

Related Party and Related Party Transaction

Related party:

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

a) A person or a close member of that person's family is related to a reporting entity if that person: i. has control or joint control over the reporting entity;

ii. has significant influence over the reporting entity; or

iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi. The entity is controlled, or jointly controlled by a person identified in (a).

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and

b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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Agenda Item 7

Report to:	**Governance Committee**
Date of meeting:	**17 July 2018**
By:	**Chief Operating Officer**
Title:	**LMG Managers' Pay 2018/19**
Purpose:	**To agree the pay award for LMG Managers for 2018/19**

RECOMMENDATIONS

The Governance Committee is recommended to agree the pay award for LMG Managers for the financial year 2018/19 as being 2% (in line with the national NJC award)

1 Background

1.1 At its meeting on 26 June 2018, the Governance Committee received a report with regards to the 2018/19 pay offer for LMG Managers to be negotiated with Unison. Following due consideration the Committee agreed the offer to be made as 2%, in line with the national NJC award.

2 Supporting information

2.1 The annual Consumer Prices Index (CPI) inflation measures changes in the price level of consumer goods and services purchased by households. The CPI 12 month rate (the amount prices change over a year) between March 2017 and March 2018 was 2.5 % (Office for National Statistics), down from 2.7% in February 2018. CPI is the inflation measure used in the Government's target for inflation and for purposes such as uprating pensions, wages and benefits.

2.2 On 21 March 2017, the CPI was replaced by a new measure: the Consumer Prices Index, including owner occupier's housing costs (CPIH). This extends the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home (owner occupiers' housing costs OOH), along with council tax. This is the most comprehensive measure of inflation. The CPIH 12 month rate between March 2017 and March 2018 was 2.3%, down from 2.5% in February 2018 (Office for National Statistics).

2.3 For the three months ending December 2017, the median pay settlement for the whole economy was 2%, with the middle half of pay awards (the interquartile range) worth between 2% and 3%. Over the 12 months to the end of December 2017, the median pay award in the private sector was 2%, compared with 1.1% in the public sector (XpertHR, January 2018). For the third consecutive month (January to March 2018) the median pay award across the whole economy remains at 2.5% (Incomes Data Research April 2018).

2.4 The wastage figure for voluntary leavers among LMG Managers (e.g. resignations) for the half year period October 17 to March 2018 is 0.84%. For comparison purposes, for the period Oct 16 to March 2017, it was 2.29%.

2.5 Whilst the rate of inflation across the UK fell to 2.7% in February 2018, the National Institute of Economic and Social Research (NIESR) states "*CPI inflation is set to remain stubbornly above the target rate of 2 per cent until at least mid-2019 on our forecast. Household disposable income will be squeezed as a result*." (NIESR, December 2017).

Pay Negotiations 2018/19

2.7 Following the Governance Committee's decision on 26 June 2018, negotiations with UNISON have taken place and local managers have indicated their acceptance of the 2% pay offer, equivalent to the national pay offer for 2018/19.

2.6 Attached at Appendix 1 is a copy of the current LMG salary scales along with the impact of a 2% uplift.

3. Recommendation

3.1 The Governance Committee is recommended to agree the pay award for LMG Managers for the financial year 2018/19 as being 2% (in line with the national NJC award).

KEVIN FOSTER
Chief Operating Officer

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Appendix 1

LMG Salary Scales

Grade 01/04/2017	Scale point		*Proposed 2% 01/04/2018*
LMG 1	5	£37,149	£37,892
	6	£38,264	£39,029
	7	£39,410	£40,198
	8	£40,596	£41,408
LMG 2	9	£41,815	£42,651
	10	£43,072	£43,934
	11	£44,367	£45,255
	12	£45,700	£46,614
LMG 3	13	£47,072	£48,014
	14	£48,486	£49,456
	15	£49,947	£50,945
	16	£51,440	£52,469
LMG 4	17	£52,991	£54,050
	18	£54,580	£55,672
	19	£56,217	£57,341
	20	£57,907	£59,065
LMG 5	21	£59,651	£60,844
	22	£61,431	£62,660
	23	£63,287	£64,552
	24	£65,185	£66,489
LMG 6	25	£67,147	£68,490
	26	£69,159	£70,542
	27	£71,234	£72,659
	28	£73,367	£74,835
LMG 7	29	£75,572	£77,084
	30	£77,843	£79,400
	31	£80,187	£81,791
	32	£82,588	£84,239
LMG 8	33	£85,065	£86,767
	34	£87,623	£89,375
	35	£90,255	£92,060
	36	£92,968	£94,828

		1/4/2017	*Proposed 2% 01/04.2018*
	34	£37,510	£38,260
SS13	35	£38,896	£39,674
	36	£40,335	£41,142

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Report to:	**Governance Committee**
Date of meeting:	**17 July 2018**
By:	**Head of Human Resources & Organisation Development**
Title:	**Chief Executive, Chief Officers' and Deputy Chief Officers' pay 2018/19**
Purpose:	**To consider the position in relation to the pay award for the Chief Executive, Chief Officers and Deputies for 2018/19.**

RECOMMENDATIONS

The Governance Committee is recommended to determine the pay offer for the Chief Executive, Chief Officers and Deputy Chief Officers for the financial year 2018/19 as being 2.0% (in line with the recent national awards).

1 Background

1.1 Chief Officers' pay is locally determined and annual increases approved by this Committee normally take effect on 1 April.

1.2 The national (NJC) pay award is relevant to this local determination as the decision made regarding the local pay offer needs to take into account the impact on the wider workforce and organisation as a whole. Historically, the local pay award for the Chief Executive, Chief Officers and Deputy Chief Officers has generally mirrored the national award.

1.3 Any consideration of a pay increase must, however, take into account the savings targets and significant financial challenges facing the Council, as well as the significant leadership role required to enable the Council to respond to these appropriately.

2 Supporting information

2.1 The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12 month inflation rate was 2.3% in May 2018, up from 2.2% in April 2018 (Office for National Statistics, 13 June 2018). The CPIH rate extends the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home (owner occupiers' housing costs OOH), along with Council tax. This is the most comprehensive measure of inflation.

2.2 The median pay increase across the economy remains at 2.5% in the three months to the end of April 2018, according to the latest monitored figures from IDR. The proportion of higher awards at or above 3% has increased with these awards accounting for almost a third of all the awards monitored in this period. This compares to just under a quarter of awards recorded at this level for the three months to the end of January (IDS 23 May 2018).

2.3 The median pay award in the private sector was 2.5% over the 12 months to the end of April 2018, compared with 1.1% for public sector staff (XpertHR, May 2018).

2.4 Whilst the rate of inflation across the UK fell to 2.7% in February 2018, the National Institute of Economic and Social Research (NIESR) has stated "CPI inflation is set to remain stubbornly above the target rate of 2 per cent until at least mid-2019 on our forecast. Household disposable income will be squeezed as a result". (NIESR, December 2017).

<u>Pay Negotiations 2018/19</u>

2.7 The national NJC local government services pay award was agreed in April 2018 and in broad terms, provided for a two-year deal covering the period 1 April 2018 to 31 March 2020. It gives a headline increase of 2% each year, with more at the bottom end of the pay spine to take account of National Living Wage increases.

2.8 Set against this background, the national JNC pay award for both Chief Executives and Chief Officers have also been agreed as 2% for each year, thereby providing parity with the local government services award.

Benchmarking

2.9 Attached at Appendix 1 is high level benchmarking data in relation to Chief Executives, Chief Officers and Deputies. As can be seen from this, pay is broadly in line with our neighbours. The majority have confirmed that their pay awards will mirror the national position.

2.10 In considering this data further, it is important to recognise that Councils do not have consistent structures so it is not possible to be confident that we are comparing on a 'like for like' basis. It is, however, useful to note that a number of Councils have introduced the role of 'Executive Director' which sits between the Chief Executive and departmental Chief Officers thereby providing additional senor strategic capacity. This is not a layer that exists in East Sussex.

2.11 A further relevant factor is the context in which the Council is currently operating. The scale of the leadership challenge running a complex organisation and services in the face of financial challenge, complex needs and multiple risks is significant. The leadership requirements have never been greater and the ability to work collaboratively and in partnership is vital to support the challenges around service reconfiguration and integration. As such, it is essential that our pay rates are appropriately competitive to enable us to recruit and retain highly skilled and effective leaders to ensure the best delivery of services to the residents of East Sussex.

2.12 The Chief Executive, Chief Officers and Deputy Chief Officers received a pay award of 1% for the financial year 1 April 2017 to 31 March 2018 to mirror the national award. For the year prior to this they received an award of 1%, again, in line with the national pay award.

Financial Implications

2.13 The Chief Executive, Chief Officer and Deputy Chief Officer pay bill is approximately £1.5m per annum including on-costs. If we were to mirror the current national JNC offer, this would provide for an offer of 2%, which would cost approximately £30k including on-costs. This can be met within the agreed revenue budgets for 2018/19.

2.14 Attached at Appendix 2 is a copy of the current Chief Executive, Chief Officer and Deputy Chief Officer salary scales showing the impact of a 2% uplift.

3. Conclusion and reasons for recommendations

3.1 The Governance Committee is recommended to determine the pay offer for the Chief Executive, Chief Officers and Deputy Chief Officers for the financial year 2018/19 as being 2.0% (in line with the recent national awards).

Sarah Mainwaring
Head of Human Resources & Organisation Development

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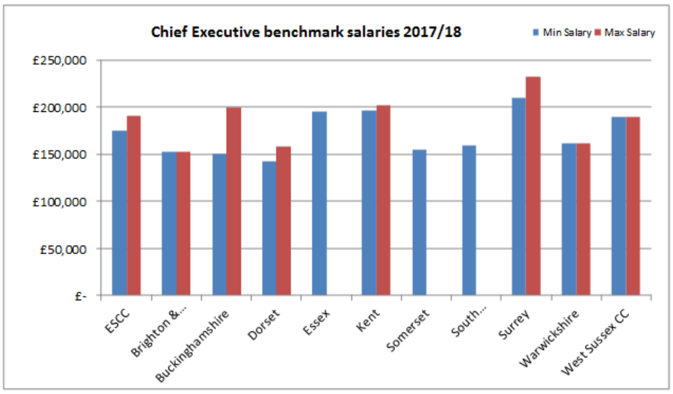
Appendix 1

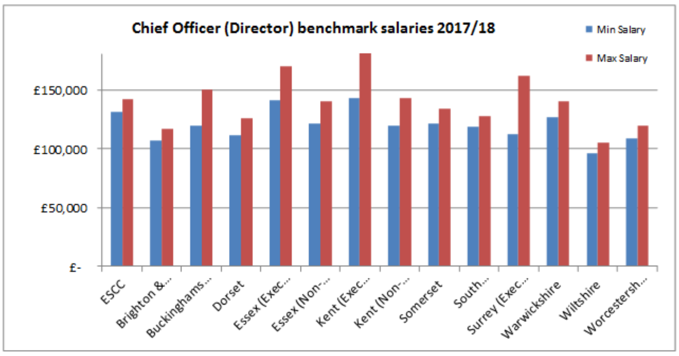
Chief Executive

		Min Salary		Max Salary
ESCC	£	174,517	£	190,693
Brighton & Hove*	£	153,015	£	153,015
Buckinghamshire	£	150,000	£	200,000
Dorset	£	142,814	£	158,116
Essex	£			195,000
Kent	£	196,522	£	201,587
Somerset	£			154,530
South Gloucestershire	£			158,855
Surrey	£	209,984	£	232,683
Warwickshire	£	162,000	£	162,000
West Sussex CC	£	190,000	£	190,000
Worcestershire***	£	154,038	£	173,421



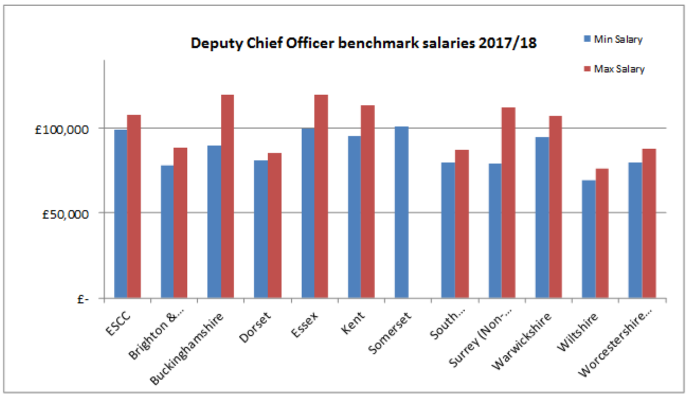
Chief Officer (Director)

		Min Salary		Max Salary
ESCC	£	131,369	£	142,217
Brighton & Hove*	£	107,111	£	117,312
Buckinghamshire	£	120,000	£	150,000
Dorset	£	111,630	£	126,281
Essex (Exec Director)**	£	141,000	£	170,000
Essex (Non-Exec Director)**	£	121,000	£	140,000
Kent (Exec Director)**	£	142,969	£	195,509
Kent (Non-Exec Director)	£	120,006	£	142,695
Somerset	£	121,200	£	133,926
South Gloucestershire	£	119,141	£	127,502
Surrey (Exec Director)**	£	112,162	£	161,514
Warwickshire	£	126,911	£	140,777
Wiltshire	£	95,978	£	105,528
Worcestershire***	£	109,035	£	119,938



Deputy Chief Officer

		Min Salary		Max Salary
ESCC	£	99,223	£	107,987
Brighton & Hove*	£	78,038	£	88,443
Buckinghamshire	£	90,000	£	120,000
Dorset	£	81,305	£	85,850
Essex	£	100,000	£	120,000
Kent	£	95,811	£	113,876
Somerset	£			101,001
South Gloucestershire	£	79,951	£	87,413
Surrey (Non-Exec Director)**	£	79,389	£	112,161
Warwickshire	£	94,609	£	107,223
Wiltshire	£	69,111	£	76,191
Worcestershire***	£	79,659	£	87,741



* Brighton Senior Managers took a vountary pay cut in previous years

**Org structure includes Executive Director posts at a higher level

*** reduced salaries by moving to 35 hour week

NB Surrey Exec Director posts pay currently being reviewed upwards to match upper quartile of pay benchmarking

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Appendix 2

Chief Officer's salary scales

	01/04/2017	01/04/2018
Chief Executive	£174,517	£178,007
	£179,748	£183,343
	£185,140	£188,843
	£190,693	£194,507
Chief Officer - Band B	£131,369	£133,996
	£134,985	£137,685
	£138,599	£141,371
	£142,217	£145,061
Deputy Chief Officer - Band A	£99,223	£101,207
	£102,199	£104,243
	£105,096	£107,198
	£107,987	£110,147

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